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EXPLORING PROSPECTS FOR MNC SUBSIDIARY RESEARCH

A Theoretical Study

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Organization and Management

Master's Thesis

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Fall 2008

Approved by the head of the Department of Marketing and Management

3,9 2008, and awarded the grade good, 60 p.

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**Date:** 24nd of August, 2008

**Title of Thesis:** Exploring Prospects for MNC Subsidiary Research

**Research Objectives:**

The objective of this study is to gather and integrate prior research into modern perspective and try to explore whether the chosen theories and main concepts explain the modern implications and features of MNC subsidiary and to what degree. As well as, to identify the features that characterizes possible upcoming prospects in this area in order to supplement understanding of this research area for possible empirical studies.

**Study Type and Methodology:**

The type of this study is theoretical in its main terms, even though certain attributes of empirical study types are addressed throughout the thesis. Theoretical analysis and review are chosen as the main methods of this study due to their acknowledged convenience for theoretical studies. The theoretical analysis contrasts the various theoretical angles chosen of the same phenomenon to the MNC subsidiaries' contemporary operating environment in order to obtain an analytical grip of the research object.

**Summary and Conclusions:**

None of the three theoretical perspectives alone appear to fully explain the characteristics of contemporary subsidiaries regarding their roles within the multinational corporation. It is though clear that the perspectives certainly provide significant explanations but still in various and usually theoretically overlapping instances. In addition to that, the evidence implies that the overall model of MNC presented in the thesis might be modified slightly as a result of the analysis made. A model for one possible outlook for the MNC subsidiary's overall environment is introduced.

As a result, the review could provide certain ground for further empirical research in order to test whether the updated subsidiary environment presented within the thesis is actually portraying the reality taking place in MNC subsidiaries and to what extent.

**Keywords:** MNC subsidiary, subsidiary role, multinational corporation research



**Laatija: Ilkka Rautajuuri**

**Pvm: 24.08.2008**

**Tutkielman otsikko:** Exploring Prospects for MNC Subsidiary Research

**Tutkimuksen tavoitteet:**

Tutkimuksen tavoitteena on koota ja yhdistää monikansallisten yhtiöiden tytäryhtiöistä tehdyn aikaisemman tutkimuksen näkökulmat nykyajan kontekstiin. Lisäksi tarkoituksena on perehtyä syvemmin millä tavalla valitut teoreettiset näkemykset ja käsitteet selittävät nykyaikaisen tytäryhtiön erityispiirteitä ja roolia. Lopuksi tutkimus pyrkii sekä selvittämään tekijöitä jotka saattavat luonnehtia mahdollisia tulevia empiirisiä tutkimuksia että lisäämään tutkimuskohteen yleistä ymmärrystä.

**Tutkimuksen toteutus ja menetelmät:**

Tutkielma on tyypiltään teoreettinen tutkimus mutta tiettyihin empiirisiin tutkimuksiin liittyviin ominaisuuksiin viitataan tutkielmassa. Lisäksi aikaisempien tutkimusten empiiristä aineistoa on käytetty tutkielmassa hyväksi.

Tutkimusmenetelminä toimii katsaus ja analyysi, joita pidetään sopivina tutkimustapoina teoreettisissa tutkimuksissa. Teoreettinen analyysi vertaa valittujen teorioiden toimivuutta suhteessa tytäryhtiöiden moderniin toimintaympäristöön.

**Yhteenveto ja Tulokset:**

Tutkimus osoittaa, ettei mikään valituista teoreettisista näkökulmista yksinään täysin selitä monikansallisen yhtiön tytäryhtiön erityispiirteitä ja roolia koko yrityksessä. Silti on selvää, että teoriat yhdessä tarjoavat selityksiä suuressa määrin mitä erilaisimmissa mutta ei välttämättä yhdenmukaisissa tapauksissa.

Tulokset antavat myös viitteitä siitä, että tutkimuksissa esitetty monikansallisen yhtiön malli eri tekijöineen saattaisi olla muunneltavissa tutkimuksen nykykontekstissa ja näin ollen mahdollinen tulevaisuuden näkymä mallista on esitetty.

Kaiken kaikkiaan tutkimuskatsaus saattaa rakentaa pohjaa tuleviin empiirisiin tutkimuksiin joiden tarkoituksena olisi koetella missä määrin tässä tutkimuksessa esitetty nykyaajan tytäryhtiön toimintaympäristö kuvaa todellisuutta.

**Avainsanat:** MNC subsidiary, subsidiary role, multinational corporation research  
monikansallinen tytäryhtiö, tytäryhtiön rooli

## TABLE OF CONTENTS

### LIST OF FIGURES AND TABLES

### KEY TO ABBREVIATIONS

### DEFINITIONS

1. INTRODUCTION AND OVERVIEW_____	1
1.1 Background Discussion	1
1.2 Research Problem	5
1.3 Research Objectives and Questions	5
1.4 Study Type and Methodology	6
1.5 Scope of the Study	9
1.6 Organization of Thesis and Theoretical Framework for the Study	10
2. LITERATURE REVIEW_____	12
2.1 Contextual Preface	12
2.1.1 Subsidiary Concept within MNC	14
2.1.2 Models of MNCs in Relations to Subsidiaries	15
2.2 Theoretical Base for MNC Subsidiaries – Multi-Focus View	16
2.2.1 Agency Theory	18
2.2.2 Resource Dependence Theory	21
2.2.3 Network Theory	21
2.2.3.1 Subsidiaries Remodelling Networks	22
2.2.3.2 Subsidiary Network Context and Embeddedness	26
2.3 Witnessing a New Environment for MNC Subsidiaries	28
2.4 External Conditions	32
2.4.1 Environmental Forces Influencing on Subsidiary Roles	32
2.4.2 Nation-State and MNC – Squeezing Subsidiary	34
2.4.3 Critique on MNCs' Interventions to Local Configurations	38
2.5 Internal Conditions	40
2.5.1 Characteristics and Elements of Modern Subsidiaries	40
2.5.1.1 Strategic Subsidiary Roles	41
2.5.1.2 Subsidiaries as Strategic Initiators	43



2.5.1.3	Evolving Subsidiary Roles	44
2.5.2	Strained Relationships with HQ – Subsidiary on a Leash	47
2.5.2.1	Gaining Attention from HQ	49
2.5.2.2	The Illusion of Strategic Partnership	51
2.6	Research Challenges and Modern Responses	57
3.	THEORETICAL ANALYSIS OF THE MAIN FINDINGS	62
4.	DISCUSSION AND CONCLUSIONS	70

## REFERENCES

## LIST OF FIGURES AND TABLES

Figure 1: The Level and Focus of the Study	10
Figure 2: The Theoretical Framework for the Study	11
Figure 3: Multiple Levels of Organizational Context of the Research Area	12
Figure 4: A Multinational Company Interpretation through Taxonomies	19
Figure 5: Streams of MNC Research	20
Figure 6: The Integrated Network Model of MNC	26
Figure 7: Drivers of Model Change of the MNC	32
Figure 8: Configuration of the Triad of Organizational Mechanisms	37
Figure 9: Different Types of Subsidiary Strategy	42
Figure 10: The Integration – Responsiveness Grid	48
Figure 11: Strategic Subsidiary Planning Role: Multiple Approaches	52
Figure 12: Framework for the Initiative Process	55
 Table 1: The Characteristics of Autonomy and Attention	 50

## KEY TO ABBREVIATIONS

CM= Country Manager

HQ= Headquarters

I-R Grid= Integration-Responsiveness Grid

MNC= Multinational Corporation/Company

MNE= Multinational Enterprise



## DEFINITIONS

Some of the relevant building blocks of the research area are defined as follows:

*Global Integration* = Integration of activities refers to the centralized management, that is, decisions made at the head office, of geographically dispersed activities (Prahalad & Doz, 1987).

*Global Strategic Coordination* = Strategic coordination refers to the central management of resource commitments across national boundaries in the pursuit of strategy (Ibid.).

*Integrated Network* = MNC's interunit relationships based on mutual interdependence rather than either dependence or independence (Ghoshal & Bartlett, 2000).

*Local Responsiveness* = The concept is defined as a resource commitment decisions taken autonomously by a subsidiary primarily in response to local competition and customer demands (Prahalad & Doz, 1987).

*MNC* = Multinational Corporation, in its broad terms, is a corporation or sometimes referred to as an enterprise that manages production establishments or delivers services at least in two countries.

*Paradigm* = Shared framework involving common theory and data collection tools in which researchers ordinarily approach scientific problems (Dooley, 1984: 44).

*Paradigm Shift* = The revolution in assumptions about and perceptions of a research problem during which one paradigm is replaced by another (Ibid.).

*Subsidiary* = A semi-autonomous unit representing a component of a multinational corporation (Birkinshaw, 2000). More specifically, subsidiary is also defined to be any operational unit controlled at least to certain degree by the MNC HQ and situated outside the home country. This definition by far ensures that the somewhat artificial notion of a single parent-subsidiary relationship is avoided. As the reality in most contemporary MNCs is that subsidiaries have multitude of linkages with other corporate entities in its home country and worldwide. (Ghoshal & Bartlett, 1990)

*Subsidiary Autonomy* = Defined as the degree to which the foreign subsidiary of the MNC has strategic and operational decision-making authority (O'Donnell, 2000:528).

*Subsidiary Capabilities* = Subsidiary's capacity to deploy resources, usually in combination, using organizational processes to bring about a desired end (Amit & Schoemaker, 1993).

*Subsidiary Evolution* = The result of an accumulation or depletion of capabilities over time (Birkinshaw, 2000:83).

*Subsidiary Initiative* = The concept is defined in this study as a discrete, proactive undertaking by the subsidiary that advances a new way for the corporation to use or expand its resources (Kanter, 1982; Miller, 1983).

*Subsidiary Resources* = The stock of available factors owned or controlled by the subsidiary (Amit & Schoemaker, 1993).

Other additional definitions are presented within the thesis as they are addressed.



## 1. INTRODUCTION AND OVERVIEW

### 1.1 Background Discussion

The departure point of this thesis is the fact that the world's biggest corporations – multinational corporations - are in a state of flux. Modern managerial pressures and environmental forces have without a doubt transformed the global competitive game, forcing these corporations to at least rethink their traditional worldwide management approaches concerning strategy and their foreign subsidiaries' operations. Apparently some companies have answered better to these changes in their business environment than others who are left struggling for survival and even are forced to abandon businesses. (Bartlett & Ghoshal, 2002) As a result of this contemporary mode of competition, the dispersed global businesses, multinational corporations are however seen as the most influential and powerful institutions in the global economy even displacing nation states in their ability to pursue economic development mostly through their globally dispersed subsidiaries locating in various countries. (Birkinshaw, 2000)

Therefore, this huge change is forcing multinationals to recognize the possible deficiencies of their current organizational frameworks, especially for dealing with the global – local dilemma of how to compete globally and the same time manage locally, that is, developing 'glocal' organizations capable of thinking globally and acting locally to utilize diverse subsidiary resources to achieve shared goals. (Humes, 1993)

Hence, all these changes have an effect on the role of MNC subsidiary in a foreign country. At this critical juncture, the subsidiary is more often than not squeezed between the pressures of the parent company and certainly its location attributes in the MNC's endeavor to obtain world markets using subsidiaries as the instruments of this global rival. (Birkinshaw et al., 2006) Nevertheless, given the increasing globalization trends, subsidiary roles and mandates have undisputedly changed from traditionally being independent stand-alone

operations and production facilities to more integrated and interdependent networks.

Evidently, multinational corporations and their components – subsidiaries - have been a well-documented phenomenon during the last twenty or so years among many scholars. Recent research has largely focused on the structural aspects of the MNC, especially the mechanisms of HQ coordination and control to classify subsidiaries (Taggart, 1997; Birkinshaw et al., 2000), or on examining the specific roles of subsidiaries such as Centers of Excellence (Andersson & Forsgren, 2000). Furthermore, strategic management literature on the role, development of subsidiaries and their geographical dispersion is presently well acknowledged and discussed (see, e.g., Bartlett & Ghoshal, 1989; Birkinshaw, 1996; Birkinshaw & Hood, 1998; Holm & Pedersen, 2000; Roth & Morrison, 1992). Subsidiary typologies i.e. subsidiary categories are also recently researched (See e.g. Enright & Subramanian, 2007)

Dunning (1993) and Vernon (1998), on the contrary, have taken a more economist while Kristensen and Zeitlin (2005) took more sociological research approach regarding their rather critical work on MNCs, former focusing on internalisation theories and international trade, foreign direct investments issues and government intervention, emphasizing the rationality of the global firm, as latter gave more emphasis on the governance of MNC and the management of its locally attached subsidiaries.

As said, MNC control and coordination mechanisms and HQ-Subsidiary relations are also certainly well addressed particularly from the headquarters point of view. For a recent study on control and coordination of foreign MNC subsidiaries, Björkman (2007) explored the different types of control mechanisms. Results showed that even though the view and role of the HQ as traditionally seen is changing, still control mechanisms applied play an important role in MNCs for them to function effectively. Thus, we cannot study subsidiaries totally in isolation of their parent companies even in today's altered corporative environment.



Nevertheless, a growing stream of research in this vein has focused on the nature of the subsidiaries and the roles that subsidiaries play in the strategies of MNCs (Enright & Subramanian, 2007). However, at the same time, despite an increasing amount of work on MNC subsidiaries, and the way they are seen as centres of excellence, motors for corporate renewal or innovators of the future, there seems to be limited convergence of how to theoretically approach modern subsidiaries. In most cases, researchers have opted for only few dimensions to try to capture what essentially is a phenomenon that can vary across several dimensions. Moreover, empirical studies at the subsidiary level often seem to focus on the overall MNC strategy, structure or systems of the whole multinational firm and only indirectly to the subsidiary operating context and its contemporary environment (Ibid.) even though the affiliate units are been regarded much more than just as traditional manufacturing units or production facilities. As the consequence of managers' mutual and global concern of this manifold phenomenon, it is clear that the major providers of solutions or at least certain explanations to these complex issues lie primarily on the shoulders of research community.

There is seems to be a prevailing excitement within the research community as the scope available to researches widens as scholars are able to ask new questions using quite different units of analysis as opposed to traditional strands of research. (Stopford, 2003:244) For researchers, the very nature of global competition today has meant the attempts to develop new theoretical perspectives with through which to examine the management of a set of foreign subsidiaries with diversity in their external environments and a range of internal skills and competencies (O'Donnell, 2000). However, it seems that these efforts have only been implemented from the perspective of the whole MNC to large degree and HQ more specifically.

In other words, the perspective has primarily focused on the MNC-specific issues, meaning the internal factors of corporate management and the determinants of global competitive advantage and how to manage the whole MNC from the headquarters point of view. Only little attention has been given to the fact how a



subsidiary's role and competence is determined by the internal as well as environmental, i.e. the external factors. It seems that subsidiary development research has a gap relating to factors that are not firm, network and/or industry-specific. (Benito et al., 2003)

*Consequently, in the face of these challenges, is theory regarding MNC subsidiary up-to-date or are these globally dispersed units being misinterpreted and taken for granted as a research phenomenon?*

Clearly, there are as many perspectives on multinational companies and what should be their objectives, strategies, and procedures and how should they be managed successfully, as there are concerned commentators (Hulbert & Brandt, 1980). Theoretically, this could be regarded as both an advantage and a drawback, that is, even though the depth of research is gaining profound recognition through extensive studies on narrow and specific areas, still only few studies have been made to cover relevant and sometimes overlapping factors from various angles. These types of studies might improve the transparency of the whole complex MNC research at least to some degree.

As stated, until now, the main focus of prior MNC inquiry has been that of the firm's head quarters of the whole corporation or the parent company of certain division or function and its pursuit to manage the whole corporation. The discussion on MNCs has strongly introduced the inherent difference in perspective between subsidiary and head office. As from the theoretical side, little attention has been paid to the conceptual and theoretical frameworks used to model and analyze MNC subsidiaries in their altogether changed operating environment. Instead, many attempts have been made to analyze certain aspects of the MNC and its subsidiaries starting from an established or well-used theoretical base. (Doz & Prahalad, 1991) Especially, this is witnessed through the unwillingness of the well-recognized scholars to break their own scholar's comfort zones regarding the research view of the phenomenon (Kristensen & Zeitlin, 2005).

Since existing paradigms by the very nature of their apparent underlying simplifying assumptions seem not to fully capture the complexity and richness of the MNC subsidiary, a review of the recent topics affecting the phenomenon's manifestations seem relevant in order to increase the modern understanding of both theoretical and managerial aspects of MNC subsidiary. What this sort of discussion makes clear is that there is a motive to analyse the relevant and somewhat dissimilar but however overlapping theoretical views and related concepts in many instances, and contrast them to MNC subsidiaries operating environment. This leads to the following research design.

## 1.2 Research Problem

As stated in the overview, generally the MNC subsidiary is thoroughly researched from multiple but not particularly overlapping theoretical perspectives and the general focus of the studies has been on subsidiaries as a part of HQ issued role. The challenge is to reconcile these past strong concepts and predispositions with the multiple theoretical perspectives that are traditionally applied in studying MNCs, which have a huge but varying impact on subsidiaries. Thus, my intent is to focus on these various views, from the theoretical perspective, that of the MNC subsidiary in its contemporary environment and its role within the MNC regarding traditional theories and models in order to explore: *To what degree can the existing theoretical perspectives involving MNC subsidiary explain its modern role within the MNC and in its operating environment?*

## 1.3 Research Objectives and Questions

The objective of this study is to gather and integrate prior research into modern perspective and try to explore whether the chosen theories and main concepts explain the modern implications and features of MNC subsidiary, especially, and to what degree. As well as, to identify the features that characterizes possible upcoming prospects in this area in order to supplement understanding of this



research area to certain degree for possible empirical studies. In the end, the final motive of this study is to contrast the various theoretical angles chosen of the same phenomenon to the MNC subsidiaries' contemporary operating environment and the modern subsidiary characteristics and how well these are aligned. That is, in order to describe the phenomenon in relevant setting and context, it is inevitably vital to acknowledge the up-to date factors, research variables, in the context affecting the phenomenon.

In order to explore whether there exists a shift in focus regarding MNC paradigms and to conceptualise a contemporary image of the MNC subsidiary in its environment the following research question and side inquiries are presented:

1. *To what degree can the existing theoretical perspectives explain the modern subsidiary role within the MNC?*
  - a. *What are the theoretical prospects for MNC subsidiary given the contemporary implications for its role within the multinational corporation?*
  - b. *What is the impact of contemporary business environment to the subsidiary role regarding research phenomenon?*

Thus, this thesis aims to answer these mentioned questions and pursuits to reach the paper objective in a manner that is supposed to contribute to both management practises and to gain ground for possible theoretical development tested via further empirical studies.

#### 1.4 Study Type and Methodology

The type of this study is theoretical in its main terms, even though certain attributes of empirical study types are addressed throughout the thesis.

By nature, research is divided into theoretical and empirical studies albeit the differences in between are not that clear in practice and usually every research

has some implications of both types to a certain degree. Theoretical studies are often based on the problems of concepts, approaches and theories regarding the chosen research area, and the research material is mostly derived from earlier research and empirical evidence on related problem. (Niiniluoto, 1991: 60-61) Concurrently, the factors considered in the study are usually abstract or purely theoretical concepts (Hakim, 1987). Especially, studies of comparative nature regarding the various established theories of different scholars are seen as relevant subject of investigation (Niiniluoto, 1991: 60-61). Likewise, theoretical research is essentially concerned with producing knowledge for greater understanding of the area in question and not particularly changing the context of it (Hakim, 1987).

Even though, the fact that especially in the MNC research, analyses of the different elements and views have been thoroughly researched with respectable outcome. Still, a coherent review seems to be somewhat unpopular approach but still would remain as and considered as a valid approach in this research topic. For the previous arguments made, theoretical study was chosen for the research type of this thesis.

Apparently, the complexity of MNC provides apparently obstacles for theoretical analysis due to its continuous process of constitution and dissolution but still there seems to be a need to stabilize things so as to obtain an analytical grip on them at least for a moment in order to gain an understanding of the contemporary subsidiary of MNC (Thompson, 2007). Accordingly, new approaches and frameworks are required to plot a course through the new environment and the altering MNC context (Bracken, 2004). Consequently, the partial objective is to review the existing literature and try to modify it to a contemporary setting using the chosen methodologies of *review and analysis*.

Before addressing the primary methodological approach, it is important address the main method of data gathering being the provider of material for the final analysis.



Indeed, *a review* of the literature and existing studies is usually regarded as being the initial stage of some larger empirical research. However, it is argued that a comprehensive research review can produce substantive information in its own right if implemented with appropriate methods. (Hakim, 1987:17) Moreover, research reviews provide a synthesis of existing knowledge of the chosen research phenomenon on a certain question, which is based on an assessment of all relevant research that are taken along in the study. Accordingly, reviews can apparently vary a great deal in emphasis, style, depth and presentation and can either focus on the contemporary situation, or incorporate a historical perspective (Ibid.)

As a methodological extension, *analysis* is chosen as the main method of this study due to the fact that it is often-used methodology in theoretical studies and consequently it is applied in this study too. Generally, in analysis the tendency is to manage a theoretical problem by decomposing a certain entity to pieces. (Hintikka, 1969:272-293; Niiniluoto, 1983:156-165; Uusitalo, 1991:61) Analysis seems to be appropriate in order to draw an overall image of the results and the actual state of certain research area and finding the meaning of the constituent parts of the entity (Uusitalo, 1991). Indeed, it is argued that theoretical MNC research cannot be done in isolation of its various stakeholders in comparison to empirical studies. Arguably, the chosen methodological approaches of review and analysis could be regarded as convenient for this theoretical study.

Empirical studies are involved and concerned with *validity* and *reliability* aspects more profoundly and thus this matter is addressed only briefly.

The issue of *validity* is concerned with how accurately the theoretical and empirical evidence fits the researched phenomenon and how well the chosen concepts selected adequately reflect what is relevant about the topic. On the contrary, when analysing the *reliability* of a study, one is asking whether different researchers using the same data would get the same results regarding the same event of the study. (Dixon et al., 1987:101-102) Clearly in this theoretical approach, it is somewhat easy to question the reliability when the research



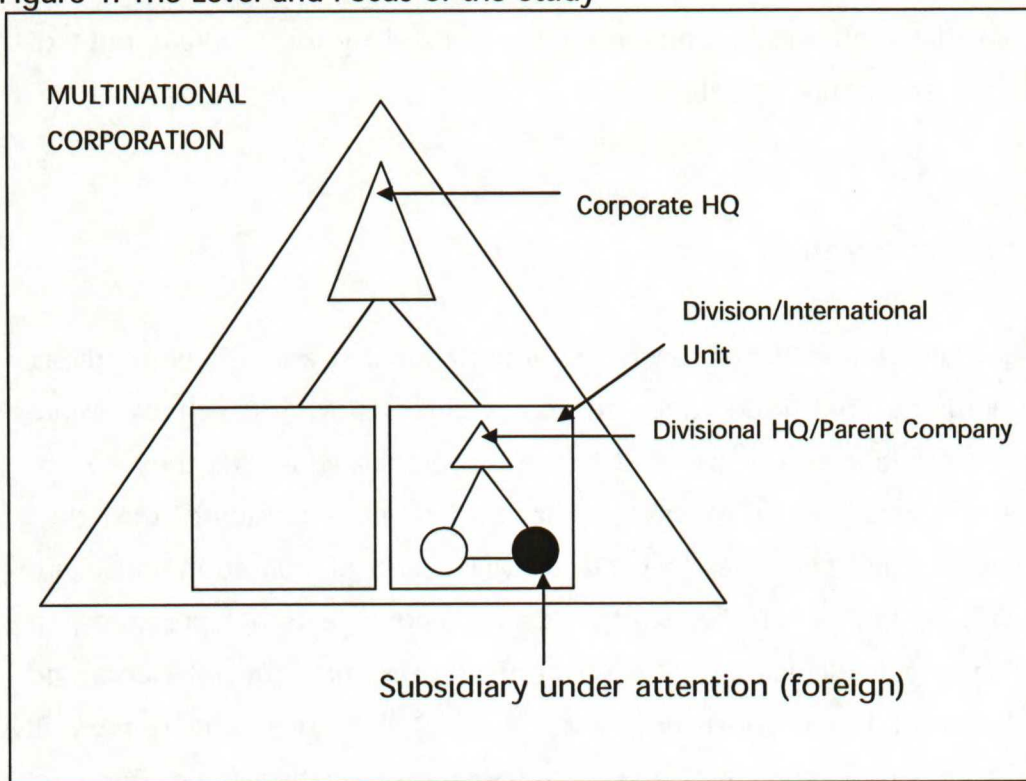
material is mostly retrieved from prior studies and theory, however it is well-acknowledged that theoretical studies are characterized by the scholar's right of choice in front vast amount of data.

## 1.5 Scope of the Study

Even though the issues of growth in international trade, foreign direct investments, regional free-trade zones and cross-border flows of technology are gaining vast recognition as the trend of increasing globalization, still they do not fit the scope of this study due to the fact that they deserve a study of their own with emphasis on the economical aspects of MNCs and globalization which are not the departure points for this study. Despite, certain external pressures, or variables, towards subsidiaries are however addressed as such but not elaborated in detail. Moreover, the most recent views in MNC literature have gone well beyond the issues and problems of how to become a multinational (e.g. Dunning, 1993) to get involved in achieving the coherent competitive strategy for an already existing MNC (Jarillo & Martinez, 1990). Thus the internationalisation theories are not included in the study; instead the main focus is on the MNC paradigms and subsidiary related theories of the MNC explaining subsidiary role development within an already existing MNC, which are reviewed more intensively.

From the methodological view, as already mentioned in the previous chapter, the type of this study is theoretical in its broad terms. So, even though certain attributes of empirical study types are addressed throughout the thesis, the main focus will be in the study in considering factors that are usually abstract or purely theoretical. Other study limitations are addressed within the thesis. The austere level and focus of this study is displayed in Figure 1.

Figure 1: The Level and Focus of the Study



Source: Andersson, 1997:10

Hence, the study will focus more on the future challenges for MNC subsidiary research created by the changing external environment as well as the internal multinational corporation context with implications to foreign subsidiaries and the drivers that are altering their role within the MNC among the theories chosen, that is, the internal and external conditions affecting subsidiary at present. The theoretical framework of the study and the overall organization of the work are introduced next. The principal unit of analysis is the (foreign-owned) subsidiary accordingly.

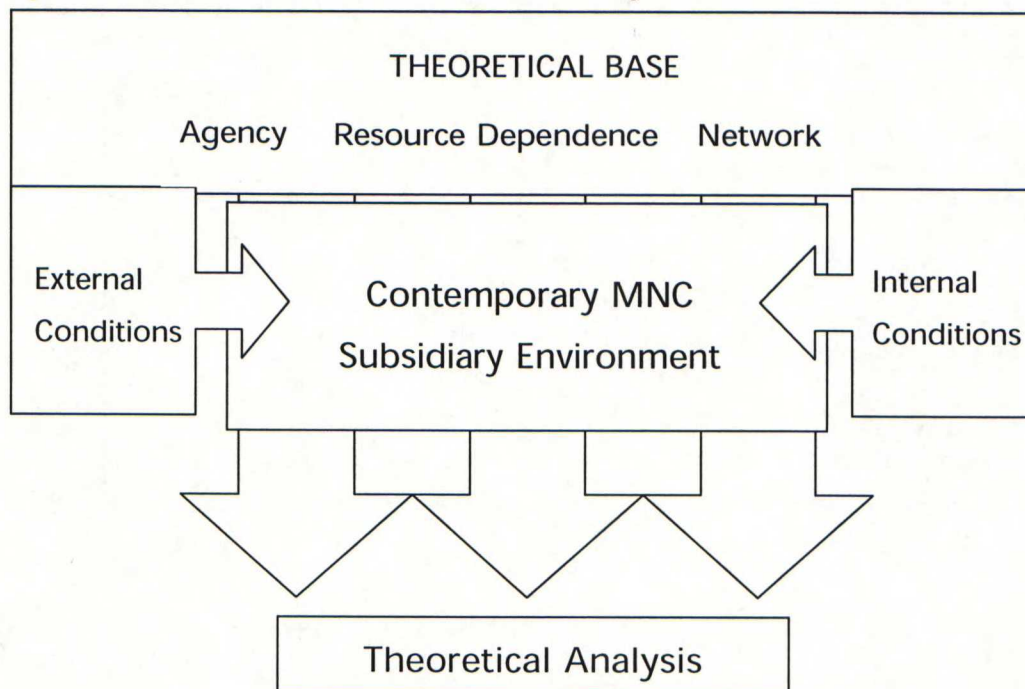
## 1.6 Organization of Thesis and Theoretical Framework for the Study

The thesis proceeds by following the study framework structure (Figure 2). Plainly, in the following chapters I will, firstly, in the research context, review relevant theories regarding the multinational corporation research, those that



have an emphasis on subsidiaries particularly. Contemporary operating environment and responses for future theoretical research affecting the phenomenon –subsidiary role within MNC – from various angles: internal and external, are discussed in the next chapters. And secondly, a conclusion with discussion regarding the overall study is introduced after the analysis of the main findings in order to construct a contemporary context for MNC subsidiary research, empirical studies for the most part. The relevance of the study is discussed and implications are elaborated upon. Lastly, limitations of the thesis are raised and suggestions for further research are presented. References are to be found at the end pages.

Figure 2: Theoretical Framework for the Study



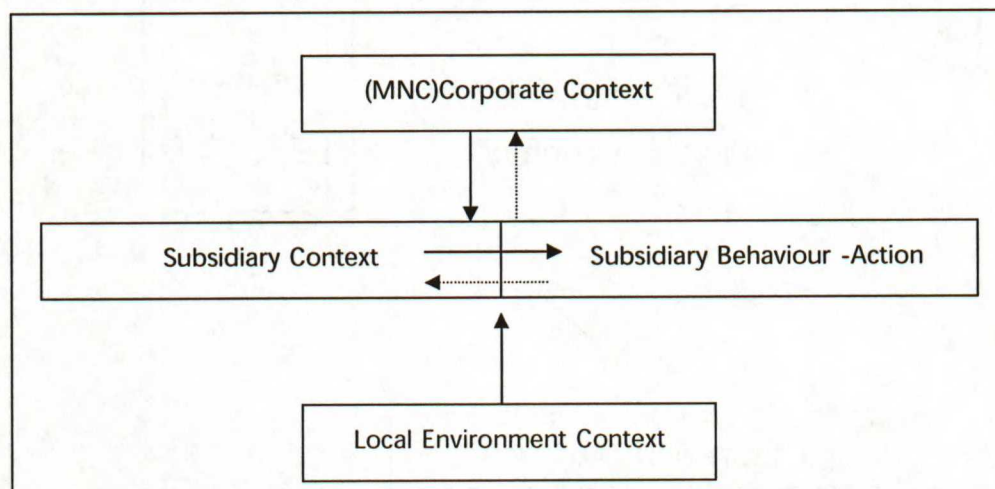


## 2. LITERATURE REVIEW

### 2.1 Contextual Preface

To begin with, in reality, as well as the head office managers, other corporate actors, and the constraints imposed by the local business environment all play a major role in shaping the subsidiary endeavours. Thus it is argued that it is actually the interplay between these different actors that defines the overall conduct of the subsidiary. (Birkinshaw, 2000) Thus, the whole study needs to be put into perspective as organized in below (Figure 3). For this reason, the upcoming study will take into consideration not only subsidiary related factors within the site itself but apparently also the influence of the other shapers of its overall stance.

Figure 3: Multiple Levels of Organizational Context of the Research Area



Source: Birkinshaw, 2000

More accurately put, according to Birkinshaw (2000), subsidiary action, that is, behaviour can be modelled as a function of *organizational context*, which is defined as follows:

*The set of administrative and social mechanisms that shape the behaviours of actors in the organization, over which top management have some control (Ibid.)*

In addition, it is argued that the essence of this definition is that any action or behaviour is a function of the setting in which it occurs under direct or indirect control of the top management to some degree. (Ibid.) Thus, globally dispersed subsidiaries are obviously under direct or indirect influence of their local organizational contexts, which can vary accordingly.

Likewise, other scholars have also elaborated on the discussion on organizational context by stating that the behaviour of individuals in a subsidiary is shaped by not only administrative and social mechanisms but also its *local environment context*:

*The set of customers, suppliers, competitors, and institutional bodies with which it interacts (Westney, 1994; Ghoshal & Nohria, 1989).*

The literature on MNCs often puts emphasis on the point that a subsidiary unit faces competing pressures: for local responsiveness to host country preferences (local environment context), and for conformity to corporate norms (corporate context). (Bartlett & Ghoshal, 1989, 2002; Prahalad & Doz 1987; Westney, 1994) Thus it could be strongly argued that subsidiary action and initiatives particularly, is shaped by the local environment context as well as by the elements of the organizational – corporate context (Birkinshaw, 2000). These contexts are subsequently taken in to consideration regarding the chosen theoretical views introduced later.

All in all, MNCs' semi-autonomous subsidiaries operate in a reality of multiple levels of organization context which are not only shaped by their parent company control but also the activities performed with the local stakeholders and within the subsidiary itself. So, subsequently, there is an effort to clarify the concept of subsidiary and the overall MNC setting that is taking place presently.



### 2.1.1 Subsidiary Concept within MNC

In order to maintain some sort of structural clarity within the thesis, it is important to introduce few of the main concepts of the research area.

In general terms, the difference between a subsidiary and a private company is that a subsidiary is part of a larger corporate entity with over 50% ownership under the MNC directly or indirectly. Consequently, the management of subsidiary differs significantly that of a private company. The difference in managing brings a bundle of opportunities with it but also certain restrictions as follows:

1. Firstly, a subsidiary has to gain competitive advantage in its own operating environment as an independent company, which may be easier to achieve with the help of corporate knowledge, connections and financial resources. This, however, preconceives that the relationship with a subsidiary and the parent company is working properly. (Iskanius, 2007)
2. Secondly, a subsidiary is co-ordinated by the corporate procedures and decision-making, which may restrict the subsidiary autonomy and the gaining of competitive advantage in the local market. In order to avoid possible conflict with the parent company, the subsidiary needs to proactively promote dialogue with the parent in getting its capabilities recognized. (Ibid.)

Therefore, it can be argued that the difference between a private company and a subsidiary goes beyond simple ownership issues to working with multiple stakeholders in various contexts and especially interacting with the parent company.

### 2.1.2 Models of MNC in Relations to Subsidiaries

The prevailing and often used explanation of the structure and especially the models of MNCs could be summarized in a set of four modes or strategies that MNCs adopt: international, multidomestic, global, and transnational. These models are in the pursuit of describing how MNCs exploit the products, processes and business models around the world perfected initially in their corporate HQ. (Bartlett & Ghoshal, 1989, 2002)

The MNC can either exploit a unitary world market with a standard product offering and with centralized global-scale operations (the 'global' model); be sensitive to the different national environments and let subsidiaries develop their business models to the respective market with certain autonomy (the 'multidomestic' model); diffuse the parent unit capabilities by replicating its business model to subsidiaries while keeping a high degree of central control (the 'international' model); or it can achieve global integration of its global operations, keeping its country subsidiaries responsive, and even learning from certain subsidiaries (the 'transnational' model). (Bartlett & Ghoshal, 1989, 2002)

It is, hence, clear that the overall complexity of the MNC management and how subsidiaries are perceived will vary significantly among the ever shifting models of overall strategies introduced, which could be argued to be somewhat generic models provided mostly for management purposes and for practitioners' use. However, principally, the study will follow more on the somewhat contemporary 'multidomestic' and 'transnational' models in order to emphasize the research point of view, that is, the subsidiary and its certain level of autonomy but still not totally disregarding other models.

All in all, the complexity of the MNC, as an organizational form, obviously sets some distinctive requirements for any theory to be relevant in analysing, conceptualising and explaining at least to a certain degree managerial issues in the MNC in comparison to simpler organizations and traditional concepts of international firms. The major differences are the attributes involving the



multidimensionality, complexity and heterogeneity of the MNC and its subsidiaries (Doz & Prahalad, 1991:146).

## 2.2 Theoretical Base for MNC Subsidiaries – Multi-Focus View

In the contemporary literature on foreign subsidiaries' role within the MNC there seems to be a tendency to avoid problematization of the interplay between the parent company and the subsidiary, which may be due to limited use of theory in studying foreign subsidiary in its modern operating environment. (Björkman, 2007) Accordingly, theoretical research focus has mainly been in the MNC management and corporate studies implemented mainly in the headquarters of the MNC.

Moreover, Ghoshal and Westney (1993) argued already over a decade ago that organizational research was divided in two; one strand of research was mostly driven by organization theory, the other on the contrary by empirical data. While the former did not consider the uniqueness of MNCs, the latter usually ignored theory stating that it did not fit the complex MNCs and thus these two strands of research have been seldom combined. Moreover, international management researches have suggested that several extant organization theories could be applied to MNCs but apparently this option has been underexploited to certain extent (Doz & Prahalad, 1991:161).

As a consequence, in studies on MNC subsidiaries where researchers have used theoretical perspectives, the focus has often been on one perspective only. Though, Kristensen and Zeitlin's work (2005) could be regarded as an exception, the study, which deserved most of its contributions due to its mixing of theoretical perspectives and apparently brought potential to transform the way researchers conceive multinational corporations. They argue that organizational theorists have been somewhat reluctant to engage more actively in research on MNCs for several reasons: the difficulty of assembling in the international domain the sorts of data to which organizational researchers are accustomed domestically, the mere complexity of MNE as an organization, and a visceral

resistance to the strong pressures for normative or 'useful' theory that could guide the actions of corporate managers. (Kristensen & Zeitlin, 2005:13) Because of this, critical issues have been neglected, as these theories alone do not always consider the complexity of MNCs, factors raised in the upcoming chapters will elaborate on the current debate.

Accordingly, in order to increase our understanding of foreign subsidiary role within the MNC, different perspectives must be combined. Three theoretical perspectives seem important for understanding both the subsidiary's interdependent interests with HQ and independent factors within the site: agency theory, resource dependency theory and network theory. (Björkman, 2007) The three theories attempt to take into consideration the power of both the HQ and the subsidiaries and balance the view of the modern subsidiary role in its environment and therefore help guide the upcoming study. The basis for choosing these theoretical perspectives is two-fold: firstly, they address the manifold dimensions of modern subsidiaries and the various stakeholders affecting their role, and secondly, they provide a certain hold for the study to compare to what extent these theoretical perspectives can answer to the challenges of modern subsidiaries imposed by their present operating environment.

Consequently, the study uses the upcoming and rather contrasting theoretical perspectives in an attempt to explain the contemporary role of the MNC subsidiary and the complicated nature of it as an object of research and contrast them to modern subsidiary characteristics. However, as an extension, due to mostly the complex nature of the phenomenon, the literature is far from clear what is meant by the theories of the MNC or their definitions. On the contrary, the implications of internationalisation theories for the MNC are usually referred to as paradigms or frameworks rather than a theory. (Birkinshaw, 2000) For this reason, the chosen theoretical perspectives are elaborated on the dominant paradigms that have implications to both theory and to MNC subsidiaries.



### 2.2.1 Agency Theory

Widely applied in different research settings, agency theory is concerned with the principal-agent relationship and the agency problem. Basically, the principal contracts the agent to perform a task on its behalf (Jensen & Meckling, 1976). In this research context, the MNC HQ, as the principal, delegates responsibilities and the decision-making authority to the management of foreign subsidiary. Apparently, an agency problem is reality if subsidiary management makes decisions that are not aligned with those desired by HQ, due to goal incongruence between HQ and the subsidiary, and self-interested behaviour on the part of subsidiary management. (O'Donnell, 2000)

In other words, the interests of the subsidiaries do not always draw near with those of the headquarters and thus subsidiaries could sometimes work in self-interest. Concurrently, subsidiaries seem to have better information about its activities and environment than the HQ (Björkman, 2007). As an indication, O'Donnell (2000) found out that through her research that agency theory could be put under question in its ability to explain fully the contemporary phenomenon of foreign subsidiary role control. Agency theory thus acknowledges the controlling needs of the HQ to assign different roles for the subsidiaries and apparently the difficulty of it in the modern environment (Björkman, 2007). Additional, subsidiary related factors that try to challenge the logic of agency theory are elaborated later in the text.

#### Traditional Subsidiary Implications

Accordingly, the early research on multinational management concentrated primarily on the reasons why certain structural forms are adopted in the shift from an international division to a global product or worldwide area structure (see Figure 5; Cell 1). The broader corporate-level strategic decisions were made at the head office thus the research stream was based on the traditional hierarchical model of the MNC. (Stopford & Wells, 1972; Egelhoff, 1982) From the theoretical

point of view, this paradigm represented an implication of the agency theory and subsidiaries were kept as somewhat implementers of HQ assignments. Apparently, the MNC subsidiary's role within the corporation was almost fully orchestrated by headquarters deliberation; at least this seemed to be the theoretical approach to explain MNC related issues in a time where subsidiaries' duty was mostly involving production, manufacturing or other scale economies.

As a consequence, traditional studies tried to explain MNCs through certain archetypes of its manifestations. A conceptual framework for tackling problems of different areas is illustrated with proposed guidelines (Figure 4) (Rutenberg, 1970). Evidently, the early stages of multinational corporations were characterized by somewhat simplifying assumptions as the effort to understand a new phenomenon with complex attributes.

Figure 4: A Multinational Company Interpretation through Taxonomies

Indirect intervention by headquarters? Headquarters understands subsidiaries?			
NO			YES
Direct interventions by headquarters?	NO	Archetype 1 No intervention Separate function	Archetype 2 Manipulation Persuasion
Subsidiaries urged to understand headquarters?	YES	Archetype 3 Authority Communication	Archetype 4 Collaboration Mutual understanding

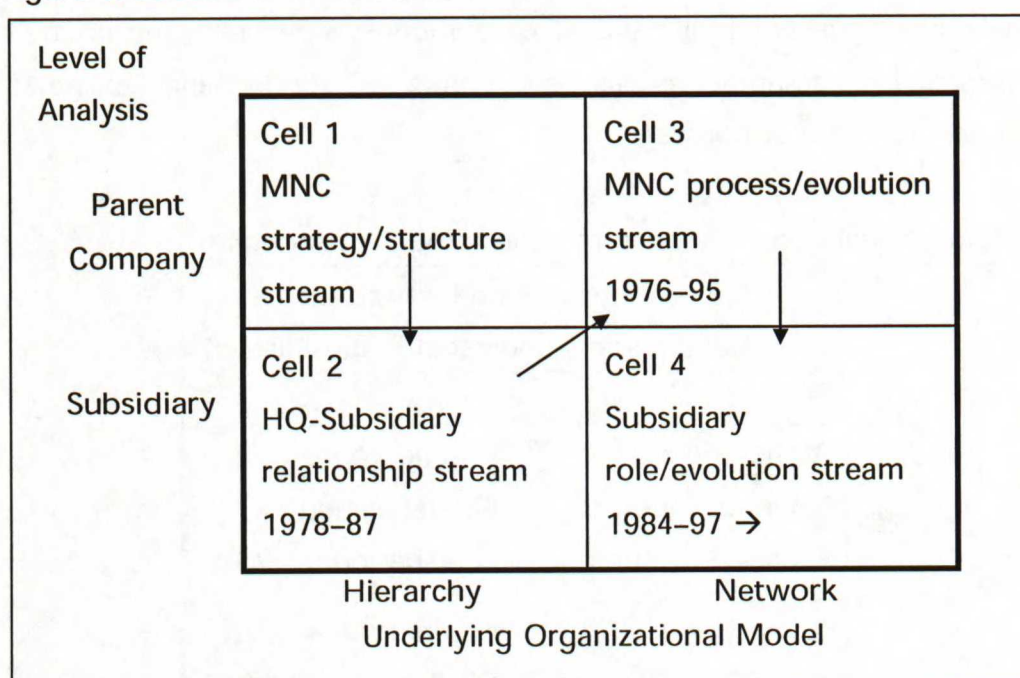
Source: Rutenberg, 1970

Nevertheless, by now it is evident, that organizational scholars are questioning the concept of *hierarchy* as the main mechanism for organizing MNCs activities and transactions with internal entities (Dunning, 1993: 39). Even though the traditional paradigm based on MNC as hierarchies has been well left behind still structural aspects are being applied as a control mechanism through which MNC headquarters tries to manage its subsidiaries following the logic of agency theory



(Prahalad & Doz, 1987). On the contrary, in contemporary global business environment where key resources and capabilities are geographically dispersed, cross-border diffusion of knowledge, information and ideas are multidimensional, communication is horizontal, and there is a strong sense of cohesion between the different parts of the organization, have led to a decision taking model better described as the concept of *heterarchy*, which is defined as a decentralized decision-making with some parent company control over subsidiary's operations on certain aspects (Hedlund & Rolander, 1991).

Figure 5: Streams of MNC Research



Source: Birkinshaw, 2000:5

Apparently, the second dominant wave of research on MNCs was concerned with understanding the manifold head office – subsidiary relationships and the various implications of this phenomenon (Cell 2). The research was particularly occupied with the complex questions of subsidiary autonomy, formalization of activities and especially coordination and control mechanisms towards subsidiaries from head office. Consequently, subsidiaries were still seen as subordinates of the parent hierarchical command and interacted primarily with their parent company only. (Brandt & Hulbert, 1977) Even though the primary level of analysis shifted from headquarters to subsidiary, it was only regarding the parent's pursuit to gain

better understanding of the subsidiary and to coordinate subsidiary's activities better in order to maintain the full control of it.

### 2.2.2 Resource Dependence Theory

The second theoretical perspective, which also focuses on the internal environment of the MNC, explores the subsidiary role and relationship with HQ from a resource dependence perspective; the power aspect between is hence further explored. The theory is based on the premise that the one, which develops or have access to resources, will be able to influence the other one in the relationship (Pfeffer & Salancik, 1978). This obviously suggests that the HQ will find it rather easy to control the subsidiary, as long as the HQ have certain unique and demanded resources that the subsidiary needs; knowledge and financial resources being few examples (Otterbeck, 1981), as it makes the subsidiary dependent upon the HQ. However, in a case that the HQ does not possess the resource or has exclusive rights to it, and the subsidiary develops them by itself, then the subsidiary's influence on its role and power vis-à-vis the HQ may grow.

Based on agency theory and resource dependence theory, certain important areas emerge, which may at least partly explain the mixed and rather contradicting results of previous research regarding the theories. For example, a subsidiary may appear rather autonomous in its decision-making but still the subsidiary management may have learned the company way-of-thinking and thus it is still controlled, only more indirectly. (Björkman, 2007) This could be thought as an undisclosed agency problem to a certain extent.

### 2.2.3 Network Theory

As witnessed, global competitive conditions have altered; scholars have seen a shift away from a dyadic, hierarchical paradigm of the MNC HQ and its subsidiaries, toward an external perspective in which the multinational corporation



is viewed as web of diverse, differentiated inter- and intra-firm relationships. As an extension, these relationships have been examined through the well-acknowledged network theory, which is focused particularly on lateral relationships within the MNC, and the point that the MNC as a whole can benefit greatly from transferring within the firm's network the resources and competencies that were originally developed at various international locations. (O'Donnell, 2000:526)

#### 2.2.3.1 Subsidiaries Remodelling Networks

Many scholars (Bartlett & Ghoshal 1986, 1989; Hedlund 1986, 1994; Prahalad & Doz, 1981) in their somewhat revolutionary research introduced a new paradigm in international management. They found out that newly, globally dispersed subsidiaries were creating communication networks with other counterparts around the world, which were highly developed networks of relationships that the head office could not ignore (Cell 3, Figure 5). Still, the research focus was strongly on the decision makers at the head office to exploit these networks of subsidiaries in their pursuit of creating added value for the MNC – it was called strategic control.

The change in thinking that caused the earlier lines of research to slowly fade away was the realization that the traditional hierarchical model did not manifest the reality in MNCs or could not handle the continuous expansion of foreign subsidiaries and the complexity in management it brought with it. (Birkinshaw, 2000) As a consequence, the new paradigm of network model of MNC, sometimes refer to as the network theory of MNC as argued before, introduced various conceptual approaches to describe the phenomenon. For example, Ghoshal and Bartlett (1990) modelled the MNC as an *interorganizational network*, which allows for multiple centers of power, and vertical and horizontal relations and which accepts that resources are found throughout the organization regardless of unit boundaries. Whereas Hedlund (1994, 1997) displayed the MNC as '*nearly recomposable system*' or as the collection of *interdependent networks*,

the '*N-form*', in contradiction to the traditional '*M-form*', this supported the MNC as a hierarchy.

### Interorganizational Network Model

There are a bundle of well-recognized models that see the MNC as an 'interorganizational network' or 'heterarchy' rather than as a traditional hierarchical firm. In these paradigms the subsidiary is interpreted as a semi-autonomous entity, slightly controlled by the parent firm and with a certain degree of freedom to organize its action. (Birkinshaw, 2000) However, as owner of its subsidiaries the headquarters has some rights and tends to remain hierarchically superior to subsidiaries. Thus, the HQ still continues to exert considerable influence over the organization as a whole, even if it may take place within a network of interdependent relationships with its subsidiaries. (Björkman, 2007)

On the contrary, Ghoshal and Bartlett (1990) state that the 'interorganizational network' is more of a network of firms that are not connected by ownership issues, as the previous scholars argued, nor controlled by ownership ties. They make the following arguments to support their view.

- 1.) The linkage between ownership and hierarchical power could be relatively weak in large MNCs due to physical distance and cultural differences.
- 2.) The high amount of resources controlled by certain subsidiaries can give them significant power over their parent company.
- 3.) Subsidiaries can become less dependent on the parent company and more valued by it when they control key linkages with actors in the local environment. (Ibid.)

Apparently, under this paradigm of MNC as an 'interorganizational network', the subsidiary possesses a certain degree of freedom in their day-to-day operations or otherwise it would not be modelled as this mentioned paradigm. (Ibid.) In this



instance, it is evident to witness the overlapping of network and resource dependence theory to a certain degree.

While, as a criticism towards the network approach in general, Dunning (1993) argued that in a network of cooperative relationships with multidimensionality in decision-making and communication might be even more daunting and complex to manage than in the traditional model of hierarchy. Moreover, the notion of intra- and interfirm cooperation – replacing interfirm contractual or intrafirm hierarchical relationships – could be pushed too far; and it is rather compelling to address the benefits of cooperation while, in practise, intra- and intercorporate rivalry may conflict and strife abound. (Ibid: 44)

The more recent, at least in the contemporary MNC management research, paradigm has been characterized by the growing role of MNC subsidiary as the principal unit of analysis, still based however on the network conception of the MNC (Cell 4). Many studies have, especially, concentrated on identifying various subsidiary roles and how the assigned roles from MNC HQ can change in association with certain environmental and structural patterns with each type of roles displayed. (Birkinshaw, 2000: 7)

The introduction of the 'interorganizational MNC' –view has led to renewed discussions on how foreign subsidiaries are seen. As a realization of this model, it is witnessed that subsidiaries are actually changing their roles on their own, proactively and even against MNC HQ policy. Apparently, it seems that the process of capability and credibility building in the subsidiary for gaining mandates from the parent company goes beyond the traditional subsidiary roles, meaning that subsidiaries are more and more pursuing their own initiatives in order to influence the role in the corporation (Birkinshaw, 2000). Consequently, scholars of similar line of research (Kogut & Zander, 1992, 1995) have also acknowledged the relevance of subsidiary development in the evolution of MNC as a whole in the near future as well as from the theoretical side, that is, as the emergence of possible paradigm shift (See Definitions.)

## Integrated Network Model

As an extension to their earlier work with some 236 managers in nine global companies during recent decades, Bartlett and Ghoshal (2002) describe the surfacing of a revolutionary corporate form – the transnational management model of MNC, which follows the concept of integrated network organization (Figure 6).

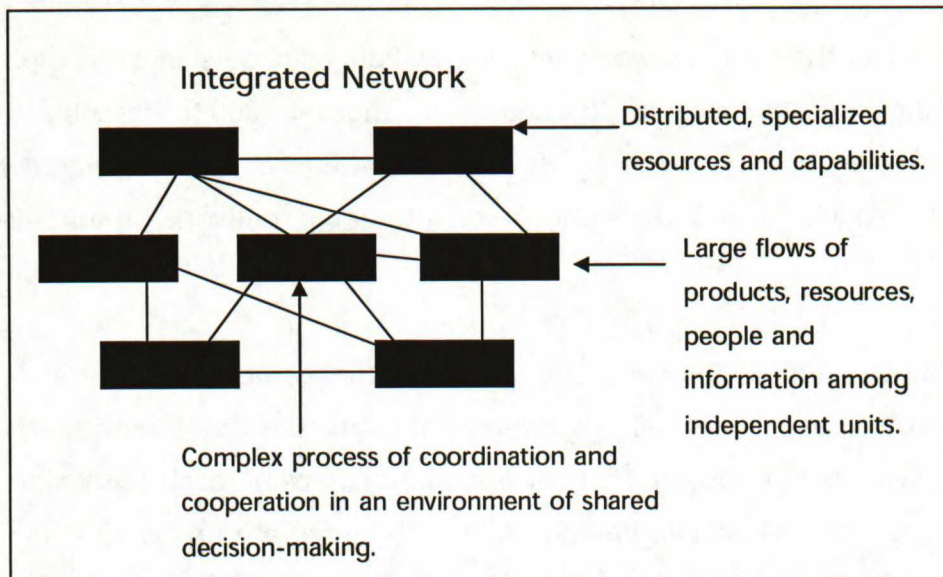
Bartlett and Ghoshal (2002) find out through their studies, however only in few instances that some case MNCs were evolving into a structure based on dispersed units with specialized roles and interdependencies with each other, the configuration described as an *integrated network*. The integrated network is more specifically modelled as a structure, in which increasingly specialized subsidiaries worldwide are linked into an integrated network of operations that will help them to achieve their multidimensional strategic objectives of efficiency, responsiveness and innovation.

Despite all, the scholars couldn't address a single company in their sample that had built an integrated network that included its entire organization. However, they suggest that this kind of configuration will become the basic paradigm around which the majority of MNCs will build their global operations. (Ibid.)

Even though the model has been gaining certain recognition in the research community, one could argue whether there exist any relevant difference between the hierarchical models and the integrated network regarding subsidiary role except that the model is brought to modern perspective and attributes of the MNC. At least, the realization of the integrated network calls for more empirical evidence. (Ibid.)



Figure 6: The Integrated Network Model of MNC



The linkage could be defined in terms of interdependence, not only with the headquarters but also with other units, not outside the boundaries of MNC however.

Source: Bartlett & Ghoshal, 2002:102

#### 2.2.3.2 Subsidiary Network Context and Embeddedness

As an elaboration for the previous network models, the focus shifts more towards the subsidiary point of view. Thilenius (1997) states that subsidiary is simultaneously operationally bound and dependent on its local network context and the division of the larger MNC. The scholar's extensive empirical data and doctoral research on subsidiaries showed that the network context of the subsidiary is unique and somewhat difficult to comprehend by division management when the HQ is not directly involved in the subsidiary's daily operations.

Hence, the network context could be regarded as mechanism by which the subsidiary is able to influence its role within the MNC and its context (Cf. to Contextual Preface). By now, the clear contradictions between the different network approaches can be witnessed when the perspective changes from HQ to subsidiary more clearly.

The results of the field work concerning 76 subsidiaries in 14 divisions of 10 international Swedish corporations indicated that the subsidiary's dependencies on its network context can have an effect on its power in the whole MNC. However, it still seems that the division management in the HQ is able to control and coordinate the subsidiaries to a certain degree, though the subsidiary's operative role with dependencies upon both the network context and the division, plays an important function in this process. In all, this study proves the relevance of subsidiary's network context in its role development and must be considered as an important element within the whole MNC as well. (Thilenius, 1997)

Following the lines of Thilenius's findings, Ghoshal and Bartlett (2000) found out through their research on MNCs that the subsidiaries closest to the customers or most knowledgeable about the technology used in the local market were usually better placed to react to changing environmental demands or market opportunities being exposed. This finding led to a radical decentralization of resources and responsibilities and finally to a legitimate empowerment conducted in the companies.

Hence, in order to increase its autonomy and power within the whole MNC, subsidiary's efforts to enlarge its network context wider will have a strong influence on the matter and at the same time, the dependence on parent company's coordination and surveillance seems to decrease to some extent.

On the contrary, Andersson's (1997) study demonstrates that subsidiaries' embeddedness in their business networks of their specific operational environment seem not to only influence them, but also the whole MNC of which they form a part. The concept of subsidiary embeddedness is often used to describe how deeply involved the subsidiaries are in their business networks and therefore how strongly influenced are by them. The scholar argues that the interdependence is created between the network counterparts, meaning suppliers, customers, competitors and government stakeholders, through the gradual adaptation of resources and activities. And apparently interdependence makes it



is possible for the subsidiaries and the counterparts to influence each other's activities and operations even ignoring the parent company totally.

The empirical base comprised 100 subsidiaries in 20 divisions in Swedish multinationals corporations. The main findings showed that the subsidiaries' embeddedness in their networks affects their headquarters' integrative endeavour and the subsidiaries' perceived control. The more the subsidiaries are externally (outside the legal MNC system) embedded, the more confined HQs' possibilities to control their behaviour and development, while the opposite is true the more corporately (with sister units) embedded the subsidiaries are. Apparently, the resources created in the network may be used by the subsidiaries to influence the overall strategic behaviour of the multinational corporation if they appear to be providers of technological knowledge. (Ibid.) Clearly, the technological knowledge created might be applied only at the local subsidiary thus never reaching the upper levels of the corporation, which could thus challenge the resource dependency regarding HQ.

An important step in building theory in international management research is to apply and test different theories in the unique contexts of MNC subsidiaries in an attempt to contrast their validity in the modern environment and limitations in such a setting. Hence, in the following chapters, the emphasis will be in the attempt explore the factors behind the modern subsidiary operating environment and what kind of conditions this environment has created for the MNC subsidiary and how solid the chosen theoretical perspectives are in front of these forces.

### 2.3 Witnessing a New Environment for MNC Subsidiaries

Concurrently, subsidiaries of MNCs can be interpreted as the main players undergo and experience the effects of these mentioned trials of adaptations, i.e. the paradigms, thus it is relevant explore the conditions – internal and external - in the pursuit of getting a grip of the up-to-date realization of the MNC subsidiary as a research object. Thus, the various conditions influencing

subsidiaries' presence in relations to the three theoretical approaches will be explored in the following chapters.

However, as a prelude to the upcoming chapters, the next section of this paper reviews the factors that are shaping the operating environment for subsidiaries in its current form and, which are significantly affecting the traditional stance on the subsidiaries yet to be redefined.

### Global Mentality with Local Execution

As witnessed, it seems that the traditional paradigms and concepts cannot fully explain the modern attributes of MNC subsidiaries and the role they're playing under various pressures. Already in the late 1990's, the MNC subsidiary's role, task mix and conventional characteristics were challenged and being seen in a state of flux which was since then till today strongly influenced by the next key factors or realities of current interest (Martinez & Quelch 1996:44).

Firstly, *Global Customers*, MNC subsidiaries, and practically their managers, have to deal not only with the national customers in their local regions but also to give priority to customers of other MNCs over their local customer relations they have developed. Thus subsidiaries are nowadays compelled to service global customers with negotiating multi-country deals with retailers that have investments in multiple country markets. (Ibid.)

Secondly, *Global Competition*, a growth of cross-border mergers and acquisitions in the 1980's and early 90's left many industries, in which competition had previously been focused at the national country level, dominated by a few global competitors, to be absorbed as MNCs. As a result, a MNC subsidiary may find that maximizing subsidiary's local profitability has to be subordinated to the global competitive chess game and larger markets for serving the whole MNC. To combat global competitors, profit responsibility in many cases has shifted or is



shifting from subsidiary autonomy to either region managers or to worldwide SBU and product line managers. (Ibid.)

Thirdly, *Global Integration*, the trend seems to be in specialization regarding MNC's planning in terms of its subsidiaries' roles and functions. It appears that for example both manufacturing and R&D functions are rarely operated on a country-specific basis but rather on a regional or a global basis, thus leaving subsidiaries on a narrow scale of operations. (Ibid.)

Fourthly, *Global Co-operation*, MNCs are increasingly signing strategic alliances and orchestrating other formal networks, often with their own competitors, to cross-market products and services. To extend their global coverage, MNCs are also subcontracting manufacturing and operations to other MNCs and local companies. Consequently, MNCs and their subsidiaries have to be able to manage with suppliers, licensees, and joint venture partners outside their own organizations and internal network. (Ibid.)

Fifthly, *Regional Trading Blocs*, the emergence of regional trade arrangements, in particular the European Community and North American Free Trade Area, is enabling MNCs to integrate their manufacturing and substitute a few high-efficiency plants serving an entire region for a less efficient multi-product plant in each country. Still, this means that national governments are attentive to the degree of contribution that each foreign MNC is making to their national economies. As a result, subsidiary managers have to negotiate with government officials much more than in the past. (Ibid.)

All in all, it could be argued that these external factors seemed to have lessen the subsidiary's decision-making autonomy and turn the role of the subsidiary into an instrument or a tool of implementing strategies created at headquarters. (Martinez & Quelch, 1996: 44-45) This could be regarded as a return of subsidiary being an agent of HQ.

However, it is argued that a too rapid change from the geographically organized MNCs with autonomous subsidiaries to the globally integrated MNC might jeopardize headquarters-subsidiary relations, could blur the lines of authority and discourage initiative-taking and other entrepreneurial activities within subsidiaries. (Martinez & Quelch, 1996: 44-45) So apparently, how to respond the changing operating environment provides only options to approach the challenges brought by it and not necessarily restrictions or limits.

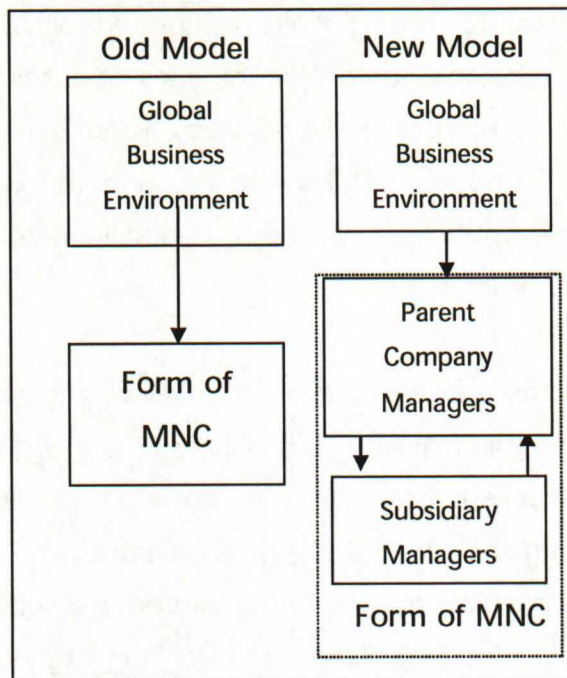
On the contrary, specifically from the subsidiaries' point of view, the changing arena could be thought as displayed in Figure 7. Birkinshaw (2000) argues that the changes in MNC strategy and constitution are as much internally driven as they are externally imposed, meaning the external business environment of which factors were just mentioned. In particular, the initiatives of foreign subsidiaries have been witnessed to be imperative in the process of organizational transformation that has resulted in, generally, the shifts of marketing, R&D, and even business management functions away from the traditional centre of HQ. As a result, the traditional view of MNC as one entity in responding to environmental changes has moved one in which the parent company and the subsidiaries create interplay in between in order to respond together to the changes in the external markets as well.

Still, Bartlett and Ghoshal (2002) state that the assumption, which implies a clear superior-subordinate relationship between HQ and subsidiary, which they refer to as the 'Headquarters Hierarchy Syndrome', can make relationships become strained and even adversarial if this interplay only implies one way communication, that is, control measures from HQ to subsidiary and then the assumption apparently becomes a reality.

In summary, it is apparent that both external and internal conditions are determinants of foreign subsidiary roles. External conditions pertain to the local environment in which the subsidiary operates. Internal conditions include organizational attributes that characterize the relationship between the subsidiary and HQ. (Hewett et al., 2003)



Figure 7: Drivers of Model Change of the MNC



Source: Birkinshaw, 2000:4

In the following chapters, there are certain issues addressed which seem to have an impact on how globally dispersed MNC subsidiaries are conceptualised in the near future and what are the most relevant drivers changing the research environment for further studies. That is, it is necessary to explore what kind of responses and additional challenges have the somewhat changed subsidiaries' operating environment put forward in terms of the addressed external (outside the boundaries of MNC) and internal (within the MNC) conditions and what kind of effects these conditions might have on theoretical perspectives applied in this study.

## 2.4 External Conditions

### 2.4.1 Environmental Forces Influencing on Subsidiary Roles

In particular, multinational corporations (MNCs) are confronted with diverse and usually conflicting environmental pressures as they disperse their activities around the world. These pressures are in many instances, broadly referred to as the pressures of *global integration (GI)* and *local responsiveness (LR)* (Prahalad & Doz, 1987). This concept is introduced later to indicate its multipurpose characteristic depending naturally on the facet taken.

However, it is argued that the well-known two-dimensional typology of global-local oversimplifies the business environment where the subsidiary operates. Thus, at least in the contemporary views, five additional dimensions, where particularly subsidiaries are put under pressures outside the corporate boundaries and are forced to respond, should be brought to theoretical models applied more profoundly at least with new attributes in the corporative arena:

1. Local government regulatory influence;
2. Quality of the local business infrastructure;
3. Global competition;
4. Technological change and
5. Resource sharing at local context. (Venaik et al., 2005)

Although Benito et al. (2003) recognize the relevance of internal MNE factors in determining the activities undertaken by a subsidiary in its local context assigned by the parent, even so, the scholar argues that environmental factors influence to a large degree both the competence and the scope of the subsidiary activities often referred to as location advantages and seek to examine the importance of those factors determining MNE subsidiary roles.

Environmental factors include both location advantages issues and political economy issues. The scholars attempt to illustrate that macro factors associated with location advantages are also significant in understanding subsidiary roles and competences (Benito et al., 2003). This argument is, however, questioned by Holm and Pedersen's earlier work (2000). They state that even though the issues of external embeddedness have emerged from those well-established studies, these



studies are still directly linked to immediate business relationships only and do not actually consider location differences or changes in the macro level policies to a great extent.

Nevertheless, using data on subsidiaries in the Nordic countries, analysis indicated that environmental factors effects both the scope and the competence level of subsidiaries. The results showed that membership of a 'deep integration scheme' such as the EU, plays a significant effect in determining differences in both scope and competence levels due to its economic convergence, the establishment of common institutions and synchronized policy frameworks. The results also suggest that more developed roles can be expected for subsidiaries located within the EU area than for subsidiaries located outside it. (Benito et al., 2003) However, increased competition due to regional integration may also have adverse effects for MNE subsidiaries besides the possibilities for subsidiary development, since not all firms will survive the effects of increased competition (Benito, 1997).

It seems that location advantages are in a state of constant change as result of economic regional integration such as the EU, which obviously has implications for the way in which MNEs organize their activities. It is witnessed that from a European perspective, there appears to be substantial benefits for MNEs operating within the EU compared to those operating outside it. (Benito et al., 2003)

#### 2.4.2 Nation-State and MNC – Squeezing Subsidiary

The importance of environmental factors affecting MNC subsidiary roles has also been studied from the more governmental view besides often-explored managerial aspects.

Apparently, multinational corporations that have developed a global network generally seem to view the world as a chessboard on which they are operating a strategic campaign on a global scale. The chessboard's squares are nation-states,

and an enterprise can reflect upon entering any of them by a number of various means – by trading with independent firms in the country, by developing strategic alliances with firms already operating in the country, or by establishing a subsidiary of its own in the country. Thus a game is developed with multiple options and approaches to wage future battles in the market place. (Vernon 1998: 22) (Cf. Kristensen and Zeitlin's study, pg.38)

Yet, the approach will follow the network paradigm but with a different angle, that is, the model is applied with more emphasis on the issues not necessarily associated with direct connection to MNC but on the external pressures affecting subsidiary at its local context or its upcoming role as a part of the MNC despite of what HQ intends.

For the nation-state, the MNC can offer capital, technology, or access to foreign markets. But according to Vernon (1998) these offerings could only provide merely cosmetic incentive, as the ultimate objective for the MNC is to gain control of the operations usually characterized by a soon-to-be subsidiary through an acquisition. Vernon identifies few responses to the traditional subsidiary tasks and the roles they play:

1. Subsidiaries are acquired in order to MNCs to absorb their technological resources for worldwide use. (Diffusion role)
2. Acquired subsidiaries are assigned defensive tasks to protect the multinational network by sending signals to rivalries through subsidiary presence in the area, i.e. the local community. (Strategic role)

Apparently the foreign subsidiaries cannot escape the influence of their parent companies totally and obviously the efforts of foreign-owned subsidiaries to blend into the national environment are usually far from a total success. The latter point could also be supplemented with local restrictive activities such as labour relations and with national jurisdiction and intervention of governments. (Vernon, 1998:22-25)



We are being challenged to think of the means of governance that can embrace comfortably the global aspirations of cosmopolitans, the national aspirations of nation-bound groups, and even the local aspirations of sub-regional interests. How to bridge these very different perspectives is not obvious. Neither the ideas nor the institutions required for reconciling these perspectives are yet very evident. Yet if my projection proves right, the pressures from aggrieved constituents can be expected to break out at times, often in ways that are destructive both to their national interests and to those of the multinational enterprises. At times, their efforts may be thought misguided, even counterproductive. (Vernon, 1998:22-25)

Subsequently, the major challenge regarding MNCs and their relationships with nation-states i.e. foreign subsidiaries is that neither or nor is destined to be obsolete. Rather the objective should be to ensure that the differences in their goals and perspectives do not create such collisions between them as to weaken the essential roles of each. Still, the scholar argues that the relations between MNCs and their subsidiaries are so precarious and often in contradiction that even questioning the continuation of MNCs' existence in pursuing global coverage is not that provocative idea to certain degree if the disparate interests of the two parties are not resolved. (Ibid.) The involvement of nation states to "get a piece" of the MNC action and honey pot is growing in rapid speed. External involvement from the nation-state and its effects to subsidiaries may have an impact on shift of research focus (Bracken, 2004).

Dunning (1993: 325-329) synthesizes a wide variety of forecasts as the possible emerging trends on the basis of the previous discussion.

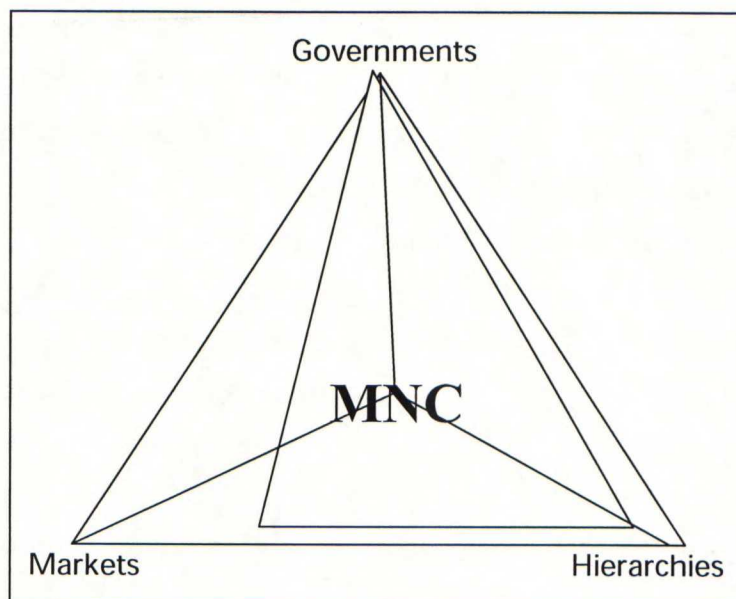
- 1) MNCs' organizational forms will become even more pluralistic and the boundaries of firms will apparently become increasingly blurred.
- 2) The networking with other firms might become multifocused with less formal relationships witnessed and cross-border bonding.
- 3) MNCs will become the organizer of its geographically dispersed assets, which are more and more interdependent.

- 4) The most relevant forecast could be the MNC's continual state of metamorphosis, that is, it seems that large companies will continue to rearrange its structures and activities both vertically and horizontally as a response to control the differentiated global activities.
- 5) The role of the government will increase in the near future as a shaper and as a complement of economic activity locally and globally to that of both MNCs and their markets.

As a possible realization of these possible forecasts MNC subsidiaries could be facing multiple pressures from their local government interventions, HQ control mechanisms and apparently the overall market mechanisms, meaning apparently more stakeholders for the subsidiary to manage with.

According to Dunning, in prospect, the modern focus seems to shift to the alternative forms of interactions created by, or within, hierarchies and the way in which these interactions affect the whole MNC competitive position in its environment. Moreover, this calls for a co-existence and reconsideration of different disciplinary approaches regarding the research in this area. (Dunning, 1993)

Figure 8: Configuration of the Triad of Organizational Mechanisms



Source: Adapted from Dunning, 1993



### 2.4.3 Critique on MNCs' Interventions to Local Configurations

In recent studies, the dominance and relevance of MNCs in global corporate expansion and internationalisation has been widely called in to question especially in relations to local industrial districts and regional clusters of businesses already existing (Kristensen & Zeitlin, 2005).

It has been argued that MNCs not only are a threat to local districts innovative capabilities and flexibility in their acquisition strategy of smaller firms but also they are able to destroy the collaborative ties that have been underlining their historic success in their local markets. Apparently, the collision of MNCs' expansion and regional firms and clusters has been gaining recognition in recent studies on MNCs' role and internationalisation of firms. (Amin & Robbins 1990; Harrison 1994)

The critique towards multinational corporations mostly wells forth from the recent study of Kristensen and Zeitlin (2005). The scholars analysed the development of a MNC with a rather novel approach. The approach was to look the whole MNC context 'bottom up', that is, from the subsidiary's viewpoint and how the affiliates can influence on the strategic direction of the whole MNC. They argue, in relations to their case study on a British-based MNC APV with foreign subsidiaries in GB, US and continental Europe, that it is highly difficult to achieve a single grip on the coordination issues involved in running a MNC and its subsidiaries to develop a coherent and integrated strategy. This is due to the fact that the MNC subsidiaries' role goes beyond the traditional head office affiliate task into one where 'local players' are compelled not only to cooperate and coordinate but also to compete with each other at various levels and in various configurations in order to advance their own interests and perspectives. (Kristensen & Zeitlin, 2005)

Nevertheless, Thompson (2007) throws some critique on Kristensen and Zeitlin's generalizations. Even though being a somewhat revolutionary study with respectable outcome, still representing a single case study could challenge its

potential as a generalization. Secondly, the case company in question expanded through mergers and acquisitions not by the means of traditional 'organic' growth usually familiar among MNC studies. And thirdly, the concentration point in the research was on the APV organization and governance issues with other factors excluded with only minor referrals.

However, as a response to the traditional MNC growth strategies and Thompson's critique, still the future trend seems to be expanding more through waves of mergers and acquisitions. Apparently, the proliferation of alliances and partnerships have confirmed the need to capture scale and scope economies and forced companies to develop the ability to manage in more flexible networked organizations. As a consequence, social, political, and economic revolution has been opening up whole regions of the world for the first time and has been creating political blocs and economic alliances that are radically changing the context for companies operations. (Bartlett & Ghoshal, 2002)

Inevitably, subsidiaries are being pressured from the head office one way or another and are compelled to suffer the consequences of those manoeuvres assigned from the HQ at their local context by interacting with various stakeholders within the local context.

As a summary, Vernon (1998) argues that imposing regulations to restrict the MNC operations in the host country can be the trend in the future. Thus the role of the subsidiary might be also changing one in which the MNC can't no longer control the local efforts that much due to nation state barriers. All in all, in the near future, nations don't see the advantages of MNCs in such a bright light that once was seen as the provider of excessive resources and technology brought visible by the subsidiaries operating in that country or region. At the end of the lengthy struggle between nations – subsidiaries and MNCs runs the risk of reducing the effectiveness of both, leaving them confused and black-eyed as they fumble toward a new uncertain equilibrium. In order to shorten that struggle could call for extraordinary measures from leaders on both sides of the business-government divide. (Vernon 1998: 219)



## 2.5 Internal Conditions

Consequently, it is imperative to explore the factors changing the MNC subsidiary role within the internal environment of MNC, that is, within the corporate boundaries. Together with the characteristics and elements of modern subsidiaries, the purpose is to address factors, which influence strongly to subsidiaries positions mostly through the interplay with the HQ at the attempt to follow the addressed 'new model' explained in Figure 7. Indeed, the point is to refer those aspects closely related to mentioned theoretical perspectives, agency and resource dependence theories mostly, and not particularly specific control tools as such, which are well-documented in earlier research.

### 2.5.1 Characteristics and Elements of Modern Subsidiaries

#### Assigned and Assumed Roles

*Assigned subsidiary roles* refer to the concept that parent company assigns the role of the subsidiary, that is, the subsidiary role is enacted through the definition of specific coordination and control mechanisms from the head office (Birkinshaw, 2000: 19-20). For example, Bartlett and Ghoshal's (2002) research attempts to suggest a somewhat vague but consistent pattern in subsidiaries actions regarding their study companies. According to their research, the intersection of strategic and organizational considerations could define four generic roles that a subsidiary of specific countries can play in fulfilling the global objectives of the transnational organization.

A subsidiary may thus function as a strategic leader, contributor, implementer, or black hole depending on the overall importance of the national environments to the firm's global strategy – the strategic consideration – or the national subsidiary's competence in technology, production, marketing or another area – the organizational consideration. As a result of this differentiation of roles,

corporate management has to coordinate the complex subtle system it has created with more flexible management process and not through the standard corporate wide tools and techniques and same methods of coordination and control. (Ibid.) This approach is contrary to the UN Model Assumption where all foreign subsidiaries should be treated as equals (Ohmae, 1985).

Consequently, this approach follows the lines of agency –principal setting strongly, at least from the HQ's perspective. However, subsidiary may proactively find alternative ways to function considering its capabilities and resources without the approval from HQ. As a consequence, subsidiaries may be responsible to implement mandates assigned by the parent company but however they are seen competing of those mandates with forceful measures (Birkinshaw, 2000: 19-20).

*Assumed subsidiary roles*<sup>1</sup>, the second perspective, on the contrary, focuses more on the freedom of the subsidiary to shape its own objectives and local strategy under certain constraints imposed by the parent. In other words, the subsidiary role is assumed at the local level by the managers rather than given strictly by the head office. (Ibid.)

#### 2.5.1.1 Strategic Subsidiary Roles

Following agency theory and the assumption of HQ assigned roles; Jarillo and Martinez (1990) proposed a framework to characterize the various roles that subsidiaries of MNCs could play within the firm's overall strategy. They applied the framework to a sample of Spanish subsidiaries to analyse the strategy at the subsidiary level. They found out that the I-R framework (Figure 9) indeed works as a somewhat useful tool to characterize subsidiary strategy but due to changes in the socio-political context, the strategic roles are in the process of constant changing and thus cannot be taken as static but as evolutionary roles.

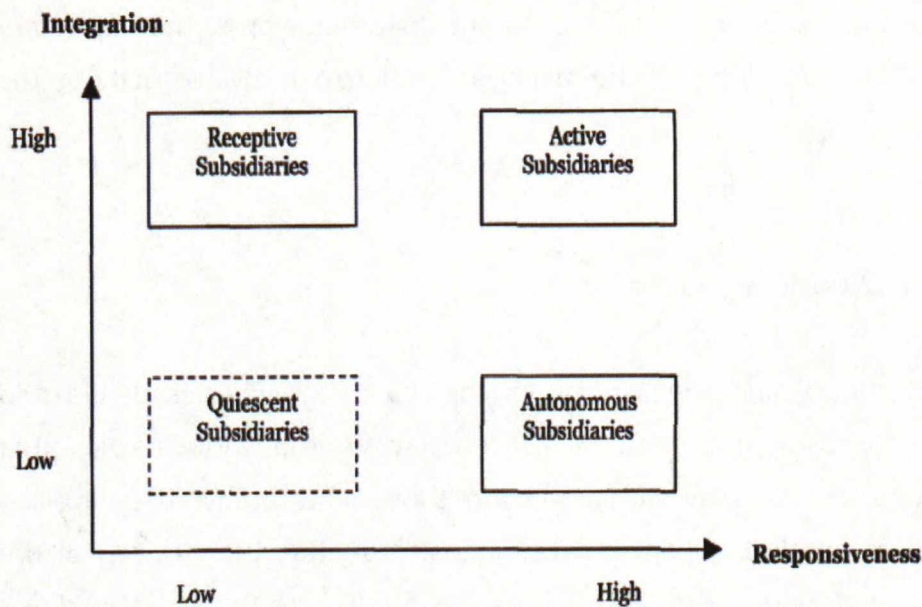
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<sup>1</sup> Also referred to as perceived roles.



The two basic dimensions, following the I-R grid model, are the geographical localization of activities and the degree of integration of those activities that are performed in the country with the same activities in other subsidiaries of the company. These two dimensions are stated to be independent: a subsidiary may take any of the chart's four corners. Thus, from the subsidiary point of view, it is following an '*autonomous*' strategy if it carries out most of the functions of the value chain in a way that is relatively independent of its parent organization or other subsidiaries; it follows a '*receptive*' strategy if few of these functions are performed in the country and they are highly integrated with the rest of the firm; finally, a subsidiary follows an '*active*' strategy if many activities are located in the country and carried out in near coordination with the rest of the firm, thus constructing an active junction in a tightly knit network.(Ibid.)

Figure 9: Different Types of Subsidiary Strategy



Source: Jarillo and Martinez, 1990:503; Liang & Nicholas, 2007:103

Based on the same framework, Liang and Nicholas (2007) identified also the four strategic roles of subsidiaries regarding their empirical study of subsidiaries in south-western China characterized by a transition economy attributes. However, they supplemented the earlier findings by the identification of number of quiescent subsidiaries (see Figure 9), of which role was, others included, strongly



shaped by the parent company. '*Quiescent*' strategy was witnessed through the actions of subsidiaries in China, which were less integrated with parents through resource flow and operational control. Quiescent subsidiaries were also seen as inactive in terms of their involvement in the operational environment of the host economy relative to other subsidiary strategies. The scholars also argue that while the parents and their subsidiaries were critical in the formation of the subsidiary's strategic role, the specific policy arrangements of the host country also played a key role in the process.

#### 2.5.1.2 Subsidiaries as Strategic Initiators

Birkinshaw (2000), on the contrary, sees the subsidiary as the primary strategic initiator, which could mean pursuing activities not mandated from head office and supporting even subversive behaviour regarding the official parent company policy. According to the author's studies, such subversion can lead to better outcome and innovative efforts than the traditional theories, for example the agency theory approaches, can explain to some degree. The scholar emphasizes strongly internally driven change efforts to the MNC strategy and structure, which is explained by the inability of the MNC HQ to control the whole geographically dispersed organization and at the same time exploit its subsidiaries and their local presence advantages.

Clearly, many scholars (Bartlett & Ghoshal, 1986,1989; Hedlund, 1986) also support the view of a subsidiary displaying the role in creating new organizational responses and initiatives in MNC's. However, they have examined how MNCs respond to changes in the external environment through the HQ, that is, the parent company collaborating with subsidiaries while lacking the view how the MNCs respond to changes from within – from the subsidiaries independently.

Presumably, the immediate impact of an initiative may be very small, but it typically leads to further initiatives in same or related areas, and over a number of years the process that unfolds can end up having a dramatic impact on the role



of the subsidiary unit, and indeed even on the MNC as a whole. (Birkinshaw, 2000)

In an instance where the subsidiary cannot strive for its initiative endeavours towards the external market with the co-operation with HQ, the model 'Internal market system' introduces an alternative path. According to it, the subsidiary unit presents itself as a semi-autonomous entity capable of entrepreneurial action and bargaining with other MNC units, rather than being treated as an instrument of the corporate strategy. (Ibid: 69) Consequently, Hennart (1991, 1993) argues that the different network approaches introduced don't take into account the multiple transactions, between the various units, seen through the internal market within the boundaries of MNC and the coordination of these operations. On the contrary, the scholar states that the market-like mechanisms such as the transfer price system and hierarchical controls in combination, offers a way to minimize the cheating that price system can encourage and reduce the shirking that can result from hierarchical control.

#### 2.5.1.3 Evolving Subsidiary Roles

As dissimilarity to Bartlett and Ghoshal's arguments on differentiated roles of subsidiaries, Birkinshaw and Fry (2003), on the contrary, see the subsidiary roles also evolving overtime, and the direction of that evolution should not be entirely controlled by the head office but rather encourage them to undertake initiatives despite the originally assigned role following the concept of differentiation. Moreover, they identify two types of subsidiary initiatives: those that are regarded as externally focused - rising out of local context and customer needs and those addressed as internally focused - subsidiary makes an effort to gain an internal mandate from head office.

In broad terms, subsidiary evolution can be defined as the result of an accumulation or depletion of capabilities over time (Birkinshaw, 2000:83).

All in all, subsidiary evolution is a function of, internal and external factors meaning, head office assignment and decision-making in the HQ, the degree of subsidiary's own judgement and autonomy depending on distance from head office, access to resources and network relationships and finally environmental determinism, meaning that each subsidiary operates under a unique bundle of conditions in the local environment which constraints and determines the activities undertaken by the subsidiary to a large degree. (Ibid.) The process of subsidiary evolution is hence driven by these three, internally and externally focused, factors.

As an elaboration, Govindarajan and Gupta (2003) also address the diminishing theme of top-down hierarchical control and governance within MNC to be replaced, at least to certain degree, by lateral coordination and cooperation between subsidiaries. According to their study on Fortune 500 companies, the scholars state that this change of theme could be managed properly by building global business teams characterized by diversity, which serves as the source of strength and of tension and conflict.

In the near future especially, MNCs must attain the proper configuration between their internal resource deployment and the potential opportunities and threats in different countries. This should be achievable through by adapting subsidiaries' strategies both to the environmental possibilities of their host countries and to the resource configuration of their parent company. (Ellis, 2000; Ghoshal & Nohria, 1993)

Few scholars have taken a different approach explaining the role of subsidiaries as somewhat 'free agents' (Birkinshaw, 2000). Evidently, leading scholars also such as Chris Bartlett, Sumantra Ghoshal and Gunnar Hedlund see clearly the importance of innovative and entrepreneurial efforts at the subsidiary level, but with an angle that the head office managers should control the efforts at least to a certain extent. (Ibid.)



## Knowledge as a Bargaining Power

However, subsidiaries may also develop informal roles that are based on resources and competences residing in the subsidiary, and which can apparently affect the amount control exercised over them. Knowledge could be interpreted as one of such source, which is of huge importance in the HQ-subsidary relationship as the subsidiary usually functions as an interpreter of the local environment. (Ferner, 2000)

Apparently, the subsidiary can possess other aspects of knowledge too, such as knowledge of procedures, production processes and products. Recent research shows that the possession of unique information has implications for foreign subsidiary control. Those that have unique information are controlled to lesser extent than subsidiaries with little or no unique information. (Björkman, 2007)

However, the knowledge, on which to deploy innovations from the subsidiary level, is seldom even transferred back to the centre HQ and as a consequence many opportunities are missed and good ideas abandoned when the MNC is either unwilling or unable to leverage knowledge from the periphery. In addition to that, the traditional models could also lead companies to fail combine knowledge from multiple sources around the world when the objective should be to identify sources of useful knowledge from the entire globe not just from the primary market or from particular subsidiary. (Doz et al., 2001)

The difficulty in transferring knowledge could be explained by the fact that, MNCs using global markets and geographically dispersed subsidiaries for innovation purposes, also referred to as Centres of Excellence, can typically face an insider/outsider dilemma. In other words, the more critical technologies and skills in question, the more difficult it is for the HQ to tap them from afar because they are usually embedded in subsidiaries and are often tacit in nature, which leads them to being an outsider of the concern. (Sölvell, 2003) Apparently, within the modern context of MNCs, knowledge is becoming the primary resource for gaining sustainable competitive advantage and for subsidiary bargaining power

within the MNC. (Doz et al., 2001) Certainly, it is, under these circumstances, worthwhile to reveal the attributes of the relations concerning headquarters and subsidiary in a more detailed and up-to-date manner.

#### 2.5.2 Strained Relationships with HQ – Subsidiary on a Leash

Even though corporate structure could be no longer regarded as one of the main method to control subsidiaries, there seems to a bundle of conceptual ways for HQ to keep its subsidiaries on a leash in the modern MNC context.

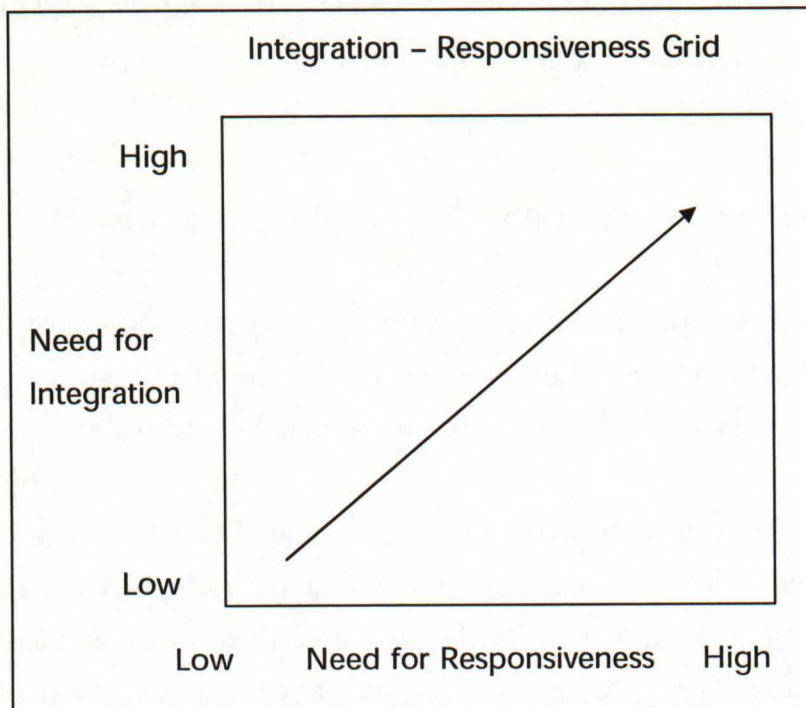
The processes of managing a large diversified multinational company are of controlling and coordinating operations, and changing strategic gears, as well as providing flexibility in a variety of businesses and their national markets. An obviously this complex task is for the senior management to manage. (Prahalad & Doz, 1987) So all in all, the authors see the top management in the role of creating the need for strategic change and flexibility, which certainly has an impact on subsidiaries' activities.

#### Integration – Responsiveness Grid

The I-R grid introduces an often-used way of capturing the pressures on a given business as seen earlier – pressures that make strategic coordination and global integration of activities crucial, as well as the pressures that compel to be sensitive to the various local demands, which makes local responsiveness critical. Consequently, the I-R grid offers a somewhat useful tool to evaluate the pressures for global coordination and integration, as well as local responsiveness. (Prahalad & Doz, 1987)



Figure 10: The Integration – Responsiveness Grid



Source: Prahalad & Doz, 1987

The allocation of resources and the nature of strategic control will depend on the 'quality of subsidiary –head office' relationships. In other terms, the resource allocation will depend at the end on the way the subsidiaries and head office units relate to each other. (Prahalad & Doz, 1987:65) As an extension of this grid as somewhat simplifying evaluative tool, Prahalad and Doz (Ibid.) argue that managing a MNC is the work of top management in trying to balance three overlapping imperatives: the economic imperative, the political imperative and the organizational imperative. In other words, top management should be sensitive to external factors – economical and political – and at the same time be aware of internal – organizational factors in the pursuit of identifying opportunities and mobilizing resources to exploit those opportunities using the grid as a frame of reference.

### 2.5.2.1 Gaining Attention from HQ

Especially in the near future as MNCs' global expansion will continue while making their operations even more dispersed, the attention from HQ/parent company will be in crucial role. While at the same time, it is imperative for the subsidiary managers to maintain their autonomy of decision-making while gaining attention from HQ. (Birkinshaw et al. 2006)

There exists several ways to adopt a variety of strategies to attract attention obviously depending on which type of market the subsidiaries are located in. In addition, it seems that the more specialized role the subsidiary has, the likelihood of reduced degree of freedom will grow to certain degree. The previous is argued by the fact that the scope for developing new initiatives and activities will be likely to increase with the number of functions in the subsidiary. According to the scholars, attention – a resource that enables people to process and notice information pertaining to the world around them – comes in six dissimilar forms that can be divided into three pairs. (Ibid.)

1. Attention can come from *top-down*, or *bottom-up* depending on the process of the issue whether it is head-office routine procedures to monitor subsidiary or a result of direct solicitations from the subsidiary for the head office to address.
2. Attention can be *supportive*, or *directive*, former meaning usually desirable forms of attention such as head office trying to learn from the local market or help the subsidiary to diffuse its best practices across the firm's global network. The latter have generally implications to attention from head office regarding either bureaucratic or compliance concerns with the subsidiary.
3. Finally, attention can be *symbolic*, or *instrumental*. Symbolic attention often means addressing the subsidiaries' activities to various stakeholders of the firm via i.e. the annual report. On the contrary, attention is instrumental when it involves time-consuming communications between subsidiary managers and their counterparts at the head office meaning travelling and



videoconference and such. The previous is usually distracting from the subsidiary view when consuming time with managing the parent company and not the local customers. (Ibid.)

But as said, the question is how to achieve attention and autonomy together. According to the scholars, the answer appears to be through implementing initiatives. They argue that the amount of strategic initiative taking in the subsidiary is a reasonable predictor of the extent to which it achieves both autonomy and attention. And as the analysis shows (Table 1), there seems not to be any inherent trade-off between attention and autonomy, thus pursuing both at the same time is realistic.

Table 1. The Characteristics of Autonomy and Attention

	<b>Autonomy</b>	<b>Attention</b>
<b>Desirable objectives</b>	To achieve control over key strategic decisions for particular activities of the value-chain	To maintain visibility at the corporate centre to help the subsidiary get the support it needs
<b>Key obstacles</b>	Tendencies towards greater centralisation of power at corporate headquarters	Competition with sister subsidiaries, particularly those located in markets that are perceived to be more strategically important
<b>Role of top subsidiary management</b>	To define the local strategy; to make trade-offs between corporate and local market imperatives	To design strategies that allow subsidiaries to influence the amount and type of attention they receive from corporate headquarters

Source: Birkinshaw et al., 2006

The challenge in delivering on the strategic plan for the subsidiary is enormous, when being dealt with issues of developing a competitive strategy for the business in a fast changing market place in a corporate context that they have limited control over. This obviously requires multiple roles for the subsidiary managers to play. The new, subsidiary manager or country manager, role has three key elements as follows. First, the ability of building relationships within and beyond corporate network is crucial for the general corporate profile as well as for the subsidiary's existence. Second, the role being alert to constant change and



being able to initiate and to deliver as the opportunity takes place in the market environment. Third, the final element is about being a defender of the local subsidiary by trying to keep the corporate bureaucracy absent. All in all, the challenge is to find a coherent balance in acting these roles and the way they are enacted, especially when the global trend among MNCs is going towards integration of activities and at the same time the level of internal competition for resources is getting more brutal signs than ever before. (Ibid.)

As an ending, the subsidiary, meaning its top managers, need to retain influence on the subsidiary's operations. In order to succeed in this, they need to ensure that the subsidiary and the market it operates in show up sufficiently on the radar of the parent company to justify the parent company sanctioning action. At the same time they need to manage the relationship in a way that preserves their autonomy when implementing initiatives. (Ibid.)

#### 2.5.2.2 The Illusion of Strategic Partnership

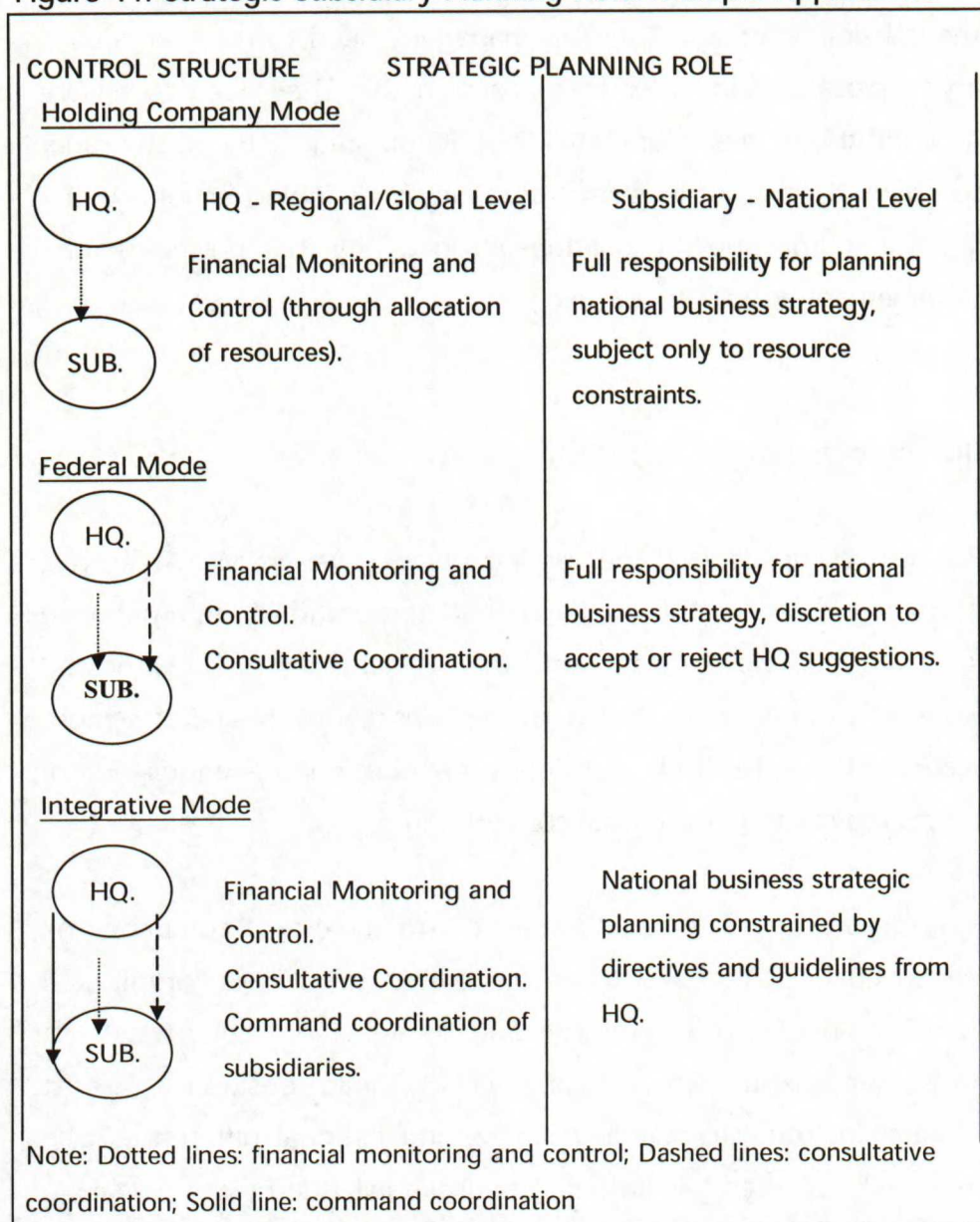
Leontiades (1985) also acknowledged the varying perspectives in MNC research, he argues that management in the multinational corporations' (international) headquarters has a different view of the world than is generally to be witnessed in its individual operating units abroad, that is, the subsidiaries. He takes a more strategic approach on the MNC HQ –Subsidiary relations in the endeavour of finding a solid corporate strategy for global competition.

Already traditional research indicated that within the multinational company, the relationship between headquarters and the subunit – subsidiaries is complicated by distance, national boundaries, culture, and national loyalty. Thus the multinational firms' subsidiaries are in a particularly solid position to resist instruction and influence from HQ. Wider distance and national differences also mean that international HQ often has little first-hand knowledge of what is taking place at the national subsidiary level. So obviously it is not startling that relations and the means to control these interactions between international headquarters



and its national subsidiaries are sometimes strained and complicated. (Leontiades 1985: 169) The relationship between HQ and subsidiaries in terms of the relative role and responsibilities of each is crucial. The emphasis is on how to coordinate subsidiaries both regionally - in their local context and globally. Leontiades (1985) tries to approach This balancing activity is modelled through three modes defining three different HQ- subsidiary relationships, or control structures, and their associated implications for strategic role of each. (See Figure 11)

Figure 11: Strategic Subsidiary Planning Role: Multiple Approaches



Source: Leontiades, 1985:15

Leontiades (1985) illustrates these three modes that try to define three perspectives on HQ-subsidary relationships i.e. control structures and their implications to MNC's strategic subsidiary roles. In the context of this thesis, the primary point of investigation follows the role of the subsidiary in term of these modes.

1. Holding company mode: This mode place full emphasis on local level autonomy in decision-making regarding strategic formulation to fit national market environment. Their freedom and independence is seen to reduce reaction time to environmental changes and bureaucratic control from HQ. On the contrary, the diffusion of technology and know-how to other units is seen to be somewhat more difficult with minimum communication and the lack of integration of local approaches to global scale.
2. Federal mode: The subsidiary receives more active participation from HQ through consultation, general framework for decision-making and other forms of uniform advice and market information apart from issuing specific instructions. The advantage of this mode is argued to be that the mode opens up window for cross-national coordination while retaining local independence. However, the practicability of this mode could be called into question due to the fact that the national subsidiary can completely reject any proposals from HQ who have only minimal touch with local conditions.
3. Integrative mode: In the last mode, subsidiaries are seen as the instruments of MNC strategy implementation where HQ specifies the roles of its subsidiaries to fit the overall strategic objectives. Subsidiaries are bound to operate under numerous guidelines and constraints. This mode can be interpreted as an approach where major decisions taken for the good of the total system (MNC) can have an adverse effect on other parts of that system (Subsidiary) while benefiting other unit depending on the situation. Consequently, subsidiaries are seen as parts of an internationally integrated system where the roles of each are coordinated according to HQ's pursuit of regional and global goals with tons of bureaucracy.



Obviously, following some mode isn't that straightforward and clear-cut in practical terms where the simplicity of a conceptual model is supplemented with variables that affect the type and degree of control exercised. Subsidiary function, operating unit's performance, multiple national differences, attitudes and outlook of management are just few of the many factors that brings complexity and diversity in the way HQ attempts to coordinate its subsidiaries in a sensible manner. (Leontiades, 1985:14-18) Thus, the role of a national subsidiary goes beyond implementing HQ mandates to one in which strategic planning takes place at the local level too but not for the MNC HQ favor. Evidently, there is clearly an interesting trade-off between control and autonomy in the parent-subsidiary relationship, and certainly the fact that subsidiary 'role' research favors control and subsidiary 'strategy' on the other hand favors autonomy is essentially an indication of the opposing perspectives of parent and subsidiary managers and (Birkinshaw, 1997:210).

### Hitting the Wall of Corporate Immune System

Birkinshaw (2000) identifies few cases where subsidiary managers encountered a 'corporate immune system' that attempted to hinder or block their initiatives, even though, in both cases the head office managers were acting in good faith or at least they perceived it to be for the good of the company. Almost by definition, subsidiary initiatives express certain degree of resistance from the power bases within the corporation, which is argued to result from that they challenge the widely accepted wisdom, that is, the strong world-views of the corporation and its historical successes. Thus, the discussion of subsidiary initiatives ultimately is about the complex multistage process of interaction and relationships between head office and subsidiary managers. (Ibid.)

Birkinshaw (2000) argues that it is actually the resistance from other organizational actors that is labelled as 'corporate immune system' and defined as:

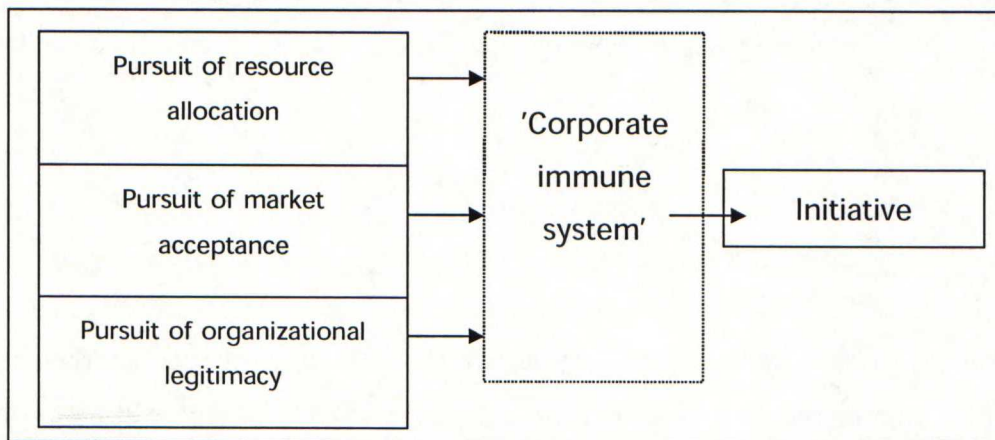


*The set of organizational forces that suppress the advancement of creation-oriented activities such as initiatives.*

The corporate immune system fights to keep out subsidiary initiatives in order:

1. To maintain the existing business model (as mentioned) orchestrated by the head office.
2. To sponsor certain individuals regarding their track record and reputation and not the project or initiative proposed.
3. To preserve the conservative system and its power base as uninfected and avoid any risk that challenge existing routines.

Figure 12: Framework for the Initiative Process



Source: Birkinshaw, 2000:38

In order to be considered an initiative success, the subsidiary has to pursue to achieve all the measures of initiative success criteria (Figure 12). That is, firstly, the commitment of resources is one indicator of possible new business activity, meaning the granting of financial, technological and organizational resources. Secondly, another measure of initiative success is the commercial success or market approval defined by the customer base of the resultant business activity (ibid). And thirdly, the final measure is gaining the organizational legitimacy for the initiative, legitimacy defined as the consistency with the established practices and routines of the organization (Dougherty & Heller 1994:202).



All in all, the order in which the efforts are realized will apparently vary depending on the nature of the initiative, the structure and systems in the organization and the external environment. Nevertheless, all the three lines of ventures are necessary for the eventual success. (Birkinshaw, 2000:38)

Today, there is an almost universal recognition that the vast majority of the world's largest and most powerful organizations have lost much of the entrepreneurial spark and individual initiative that made them successful in the first place. Buried by the meddling interference of bureaucratic staff groups, isolated from vital resources by a fragmented organizational structure, and distracted from the outside world by a tangle of internal systems and procedures, thousands of frontline managers in large companies worldwide have neither the incentives nor the motivation to seek out emerging opportunities or pursue creative new ideas. (Ghoshal & Bartlett 2000)

#### From Subsidiaries to Partners

Bartlett and Ghoshal (2003) try to explain why contemporary capabilities are needed for the concepts of differentiation among subsidiaries, interdependence between units and overall coordination. They argue that different subsidiaries in various locations are facing different globalization pressures, which has led to the fact that MNCs must differentiate their organizations across subsidiaries, businesses, and geographies. In other words, subsidiaries are assigned different roles, in marketing, innovation or production, by the head office according to the various pressures facing subsidiaries at site.

In order to facilitate the process, MNCs have to acknowledge the growing interdependence of subsidiaries around the world of which interactions cannot no longer be totally controlled by the head office but rather to help in coordinating the cooperation of subsidiary managers with systems that elicit cross-unit coordination and cooperation between subsidiaries. (Ibid.) However, it is been

witnessed that the dichotomy between MNC HQ subsidiary relations and the management paradigms, goes further beyond theoretical assumptions as witnessed in Kristensen and Zeitlin's (2005) field studies and empirical findings.

In relations to earlier, Kim and Mauborgne (2003) argue that the way to achieve the coherent cooperation in strategic decision-making between units could be managed through '*due process*'. In this instance the concept is defined as a process of four elements if done appropriately:

1. Head office familiarity with local conditions.
2. Two-way communication between the head office and subsidiaries.
3. Consistency in decision-making practices.
4. Explanations for final decisions.

The scholars found, in their study of nineteen multinational corporations, that due process was especially important for decisions that had negative impact on a subsidiary's interests, which on the other wasn't that surprising when dealing with global strategy. So apparently, when following the elements of due process in decision-making, the subsidiary managers seem not only to comply but also to accept the decisions made and follow through them accordingly. (Ibid.)

## 2.6 Research Challenges and Modern Responses

### Searching for a Glimpse of New Paradigm

Doz and Prahalad (1991) addressed already in the early 1990's the changing MNC context while arguing that the emerging paradigm should not miss the opportunities for cross-fertilization between organization theorists and scholars of multinational strategic management even though the differences between theory development and understanding of the complex phenomenon have seldom been properly unified due to the mentioned reasons in the early part of the study.



As witnessed (Figure 7), the focus of attention of MNC scholars, have shifted over time, without much clarity as to which factor influenced the other. It has appeared that the underlying difficulty is the evolutionary nature of the MNC phenomenon itself and the subsidiary's struggle for its place in the middle. For example, the shift in MNC's from relatively long-term positions rooted in access to resources, or in economies of scale, to a succession of shorter-term strategic positions built on intangible assets and dispersed subsidiaries creates very different demands on management. (Doz & Prahalad, 1991) However, as argued, this could also provide choices for the evolving subsidiary role as a keeper of the latest knowledge and as an incubator of innovative initiatives.

Concurrently, the evolution of communication systems and information technologies, in turn, allow very different responses to existing problems and change management approaches. (Ibid.) Apparently, it could be also stated that the additional concepts creates the ground for more complexity and the forum for whole new type of problems to be solved and the other way around. The scholars argue that for these reasons it is therefore not even clear that the search for a stable organization theory or paradigm of the MNC is warranted but instead an evolving agenda of managerial issues of current interest should be addressed by the researchers in order to answer the rapid changes in the MNCs' and their subsidiaries conditions (Ibid.).

For MNCs, thus the challenge, according to the authors (Bartlett & Ghoshal, 2002) is to simultaneously comply with various forces. These forces of global integration, local differentiation and worldwide innovation refers to the fact that, worldwide companies are compelled to manage their operations by capturing global-scale economies to remain competitive while at the same time responding to national preferences and local subsidiary needs. The last strategic demand for competing in worldwide businesses concerns the need to develop and diffuse worldwide innovation internationally. The scholars introduces the modern concept for MNCs of managing worldwide operations when referring to their idealized organizational model they refer as 'the Transnational Solution' where a corporation, based on

the network approach, develops global competitiveness, multinational flexibility and worldwide learning capability simultaneously.

As a critique to well-appreciated network models, Kristensen and Zeitlin's (2005) study showed that the 'making of a global firm' was driven by an increased financial orientation of the headquarters. This approach consequently led to severe conflicts, for example between finance and engineering subsidiaries. The authors emphasize, further, that the MNC they analysed is apparently far from becoming a transnationally differentiated learning network as assumed, for example by Nohria and Ghoshal (1997). Instead it could be argued that in the near future as well when subsidiaries are somewhat forced to learning in order to survive, the emergence of a 'battlefield' among subsidiaries representing and mobilizing their own local resources and capabilities and national institutional means against the rest MNC entities could be expected.

All in all, the extensive environment of the multinational corporation is without a doubt much more complex today than it was some twenty years ago, and apparently it is only getting more complex, both from the theoretical and managerial perspective. But however, this form of entity has proven itself to be agile and nimble adapting to the environment sooner or later. All in all, the upside opportunities from multinational operations are growing with the emerging developing countries outside the Western world, but apparently as are the complexities. (Bracken, 2004: 8)

#### Potential Prospects in the Evolution of the MNC Subsidiary

Researchers have long been interested in the question of why, from a theoretical view, the multinational enterprise exists as an organizational form. One well-known assumption is that a company first gains competitive advantage through strategic innovation at home and then accordingly exploits its advantage globally. This behaviour can be termed as '*projection*' due to the fact that it focuses on



transferring and exploiting advantages constructed at home into international environments. (Doz et al., 2001)

However, nowadays, it has been argued that because of the fact that markets have become more efficient mechanisms for transfer of resources, information and knowledge '*projection*' cannot be considered a valid strategy to follow anymore. Instead, in the near future, the competitive advantage of the MNC will come from its unique potential for radical innovation by leveraging distinctive knowledge drawn from various geographical contexts around the globe. This approach could represent the next MNC organizational form – labelled as the 'metanational company'. (Doz et al., 2001) Moreover, the scholars emphasize a key point that metanational companies do not draw their competitive advantage from their home country, or even from a set of subsidiaries. But instead, metanationals view the world as global canvas dotted with pockets of technology, market knowledge, and capabilities from which they build their strategic innovations. (Ibid.)

Still, in practice and according to scholars' studies, metanationals are still rare and MNCs are not departing from their conventional wisdom, except by accident. In order to gain innovation advantage from knowledge dispersed around the world, budding metanationals are compelled to build three corresponding sets of capabilities for sensing new competencies and innovative technologies, for mobilizing scattered capabilities and emerging market opportunities, and for optimising the size and configurations of operations. This presupposes, firstly, *a sensing network* of alliances with various stakeholders, targeted acquisitions to access specialist know-how, links with venture capital funds, cooperation with universities and research institutions and obviously existing subsidiaries' initiatives. Secondly, the metanational would not only have to access dispersed knowledge, but certainly also mobilize it to create innovative products, services and such. This would require a set of structures to translate new knowledge into innovative products or certain market opportunities, these structures (which may be virtual, temporary or both), may take the form of a specific project to develop a new solution e.g. for a lead customer, to design a global product or service platform.

However, the challenge is to build the capabilities to design and operate a better set of these mobilizing 'magnets' than rivals. Lastly, as multinationals evolve to become metanationals, the ability to produce, market, distribute and sell products will be crucial. This must be orchestrated by scaling up the supply chain, improving efficiencies, making incremental improvements, and by managing local adaptations. The interaction of these three activities sensing, mobilizing and delivering forms the metanational innovation process.

Moreover, these structures can form a new sub-organization dedicated to entrepreneurship and innovation, with unique set of subsidiary roles and responsibilities. However, a prerequisite to taking this new approach will be to abandon the deeply rooted and often-implicit assumption that the advantage of MNC is their efficiency in projecting HQ perfected advantages around the world but instead to focus on globally scattered knowledge. ( Doz et al., 2001)

Still, the attempts to create a 'mental matrix' rather than any structural solution have lacked any significant conviction. As introduced, in organizations that have been dubbed 'metanational', new approaches are appearing to be welcome in managing the core asset of the firm – knowledge. With this metanational model, could introduce at least somewhat better ways to create and mend knowledge across internal boundaries may in turn inspire a whole new set of organizational 'solutions' to the management of complexity. (Stopford, 2003)



### 3. THEORETICAL ANALYSIS OF THE MAIN FINDINGS

The purpose of this section is to analyse separately each theoretical perspective in relations to the subsidiary context factors addressed in the review and then draw a synthesis of those analyses accordingly in the conclusions chapters. Taken all together, the upcoming conclusion is made toward a compromise solution that reconciles, sometimes even conflicting, attributes of the problem at hand with other parts of the phenomenon, which have been addressed under previous decisions and often with different circumstances than at this point in time.

To start with, it is realizable that subsidiaries operate in a reality of multiple levels of organization context which are not only shaped by their parent company control but also the activities performed with the local stakeholders and within the subsidiary itself. It also seems that the various governmental bodies are gaining recognition as factors affecting especially the whole MNC with diverse projections to subsidiaries' behaviour. This apparently creates unique demands for any research made regarding MNC subsidiaries as a comparison to private companies or corporations operating under traditional internalisation circumstances and somewhat controllable corporate environments.

As witnessed, the complexity of the MNC arguably sets distinctive requirements for any theory to be relevant in analysing, conceptualising and explaining at least to a certain degree managerial issues in the MNC in comparison to simpler organizations and traditional concepts of international firms. The major differences are the attributes involving the multidimensionality, complexity and heterogeneity of the MNC and its subsidiaries. As a consequence, the efforts taken towards the theoretical development, especially regarding subsidiary research has been somewhat modest and only concentrated on narrow perspectives ignoring the overlapping possibilities of the theories.

## Agents of HQ or Independent Strategists?

In the upcoming years, the possibilities for various agency problems will without a doubt increase to a certain extent. This is due to the findings that indicate that the parent company will continue its pursuits to control the operations and behaviour of its subsidiaries even with unconventional methods. However, it seems that the agency theory per se does not fully explain the characteristics of modern subsidiaries or the relations between HQ and its affiliates. The analysis proceeds as follows: The theory is being challenged by the facts that concurrently subsidiaries seem to have better information, especially knowledge, about its local environment and how to strategically manage its various stakeholders. Moreover, due to the fact that subsidiaries are globally dispersed units, the HQ assigned roles could provide only cosmetic indications about the actual behaviour at site and thus function as a HQ version of the reality. Indeed, the subsidiary can pursue rather proactive endeavours in an attempt to cater either own interests or interests for the good of the whole MNC.

On the contrary, the agency theory would hold better if the assumptions concerning the HQ authority to suppress subsidiaries as the instruments of the corporate strategy were the reality. Apparently, the discussed, new reality, where subsidiaries are experiencing global mentality in almost every aspect of the factors constituting their local context: local customers with global market places and global business networks, could diminish the parochial activities and self-interested behaviour witnessed in subsidiaries. But in the long run, HQ is not seen as the distinguished principal due to the fact that a too rapid change from the geographically organized MNCs with autonomous subsidiaries to the globally integrated MNC might jeopardize headquarters-subsidiary relations, could blur the lines of authority and discourage initiative-taking and other entrepreneurial activities within subsidiaries, and thus the corporate potential for renewal at least in some instances could be jeopardized.

So apparently, how to approach the agency problems in the changing operating environment provides only options to approach the challenges brought by it and



not necessarily restrictions or limits. Furthermore, derived from the theoretical findings, the evidence emphasizes the fact that the parent company and the subsidiaries could create an interplay in between in order to respond together to the changes in the external markets. Apparently, there exists variation among scholars whether and to what degree this interplay actually works and in what forms. (Cf. Bartlett & Ghoshal, 2000; Birkinshaw, 2000) Particularly the introduction of the I-R grid has been witnessed to be somewhat useful starting point as to approach various agency issues. As for the external conditions, the fact of the matter appears to be that the emergence of various local institutions in the MNC context more profoundly, could lessen the influence of the parent company to its subsidiaries. That is, the local restrictive activities such as labour relations, national jurisdiction and intervention of governments will challenge the HQ's possibilities to assign country specific roles for subsidiaries and decrease the possibilities to control the local operations.

#### Updating Resource Dependency

Resource dependence theory implied that the one entity, which develops or have access to resources, will be able to influence the other entity in the relationship. This obviously suggests that the HQ will find it rather easy to control the subsidiary, as long as the HQ have certain unique and demanded resources that the subsidiary needs; knowledge and financial resources being few examples, in other case, the subsidiary's influence on its role and power vis-à-vis the HQ may grow especially when possessing tacit knowledge created in the subsidiary and strongly embedded in the network.

The main findings state that due to subsidiaries' network context and its external embeddedness with the local stakeholders, concurrently it could be regarded as somewhat difficult for the parent company to access certain subsidiary resources, and especially resources related to technological knowledge or to innovation. Thus it could be argued that the traditional assumption which follows the notion that the HQ is the provider of the various resources to subsidiaries could be



turned upside down, with the exception of material or financial resources, as the subsidiary being the source of the latest knowledge and strategically relevant resources. However, on the contrary, it is seen that even though some subsidiaries are considered to be as Centres of Excellence or as strategic innovators holding the elements of corporate competitive advantage, are to large degree ignored by the head office either on purpose or because of the whole complexity of the MNC. Thus, as a summary, the one in the possession of or in the development of relevant resources could still be argued to be under control of the other entity, HQ. As the most deciding resources become even more tacit in nature, it is evident that the mechanisms to realize those resources should be brought to investigation.

### Network Perspectives

Presumably, the most widely recognized, though controversial theory of the MNC is argued to be the network theory. Apparently, due to its many facets and research views applied, it is often referred to as a paradigm rather than a theory as such. Still, from the subsidiary's point of view, both the bundle of network approaches and its references to other theories certainly provide the potential for thorough analysis.

Although, the benefits of a web of diverse, lateral, differentiated inter- and intra-firm relationships as a mechanism to transfer resources and competences have been well witnessed among many scholars, still the perspectives of those studies have varied significantly, which can be seen as the illustrations of various network paradigms. Because of this variation, the way subsidiaries are seen in these networks seem to go beyond any mutual agreement among the research community regarding the theory itself.

That is, despite the fact that subsidiaries are seen creating various communication networks with other counterparts around the world and with stakeholders in the local context, still the HQ is interpreted as not only exerting the principal



influence over a subsidiary but also over the whole network referred to as the interorganizational network. One could easily argue the lacking differences between the traditional hierarchical model of MNC with agency theory and the modernized version of it, as witnessed as this network model. Apparently, it seems that the overall corporate scope has only widened as the number of stakeholders has increased and other factors have remained the same.

Still, some scholars see the interorganizational network more from the resource dependence view, stating that the network is more of a network of firms not connected nor controlled by ownership ties. But instead, rather autonomous subsidiaries gain power by possessing high amount of resources and controlling key linkages with different actors in the network. As a realization of this model, subsidiaries are apparently changing their assigned roles on their own. Briefly, a somewhat similar model, addressed as the integrated network, deserves similar analyses even though its contributions or the lack of them are yet to be properly researched through empirical studies.

On the contrary, as a criticism towards the network approach, especially, Dunning (1993), Kristensen and Zeitlin (2005) witnessed the other implications of the network theory in its deficiencies explaining possible 'battles of fiefdoms' between subsidiaries themselves or the growing complexities brought by the multidimensional decision-making and communication taking place in the network.

Even though, the network theory studies often include stakeholders outside the corporate boundaries, it should also acknowledge the fact of disregarding certain MNC entities as the HQ. Results indicate that subsidiaries embedded in their network context are able to function rather independently ignoring their company, which can lead to an insider – outsider dilemma even within the MNC itself. Moreover, derived from the review, subsidiaries may be more influenced by the local context than the factors from the MNC HQ, thus questioning both the traditional MNC theories of agency and resource dependence. That is, could it be argued at least to certain degree that the contemporary principal regarding

agency theory is actually the local network and other governmental institutions in the nation-state, and who also function as the gatekeepers to local resources, and not the MNC HQ.

In prospect, the modern focus appears to shift to the alternative forms of network based interactions created by, or within, hierarchies, markets and government entities and the way in which these interactions affect the whole MNC competitive position in its environment. Moreover, this might call for a co-existence and reconsideration of different disciplinary approaches regarding the research in this area.

#### Subsidiary Interpretations and Lessons to be Learned

According to the recent research on foreign subsidiaries' role within the MNC there seems to be a tendency to avoid decent problematization of the interplay between the parent company and the subsidiary. This could be due to limited use of theory in studying foreign subsidiary in its modern operating environment or the lack of it. It is also witnessed that extensive empirical studies of subsidiaries operating within the MNC are only few. As a consequence of, the overall complexity of the MNC management and how subsidiaries are perceived in theoretical terms vary significantly. The previous variation is explained to be result of the following facts.

Apparently, the advent of the new environment with contemporary implications has affected the level of complexity in conceptualising MNC subsidiary. As a research object, it can be argued that the difference between a private company and a subsidiary goes beyond simple ownership issues. That is, subsidiaries operate in a reality of multiple levels of organization context which are not only shaped by their parent company control but also the activities performed with the local stakeholders and within the subsidiary itself.



One of the deciding factors is that subsidiary research is characterized by various views on the same issues, as stated earlier. For example, the different network models introduced see the subsidiary both from the agency perspective as a HQ networking instrument and from the resource dependence view as a centre and the provider of strategically relevant knowledge. In addition to that, the increasing interests of the nation-state and the subsidiaries' local context stakeholders to the MNC concerns, have pushed subsidiary in a troubled position in relations to its intentions towards the local environment and the parent company.

In other words, according to Kristensen and Zeitlin's findings (2005) MNCs are seen both as a threat to local districts innovative capabilities and flexibility in their acquisition strategy of smaller firms but also they are able to destroy the collaborative ties that have been underlining their historic success in their local markets. On the other hand, Thilenius and Andersson argued that the external embeddedness and the local network context of the subsidiary actually provide the ground for opportunities for subsidiaries to influence the overall strategic behaviour of the multinational corporation. Indeed, at the end of continuous struggle between nations-states, subsidiaries and the whole MNC may run the risk of reducing the effectiveness of everyone, leaving them confused and black-eyed as they try to fumble toward a new uncertain equilibrium. (Vernon 1998)

The variety in perspectives and theoretical interpretations of subsidiary could be explained the fact that the overall research field is, according to the data, in continuous process. Therefore, the forum for subsidiary interpretations is vast. The main findings show that subsidiaries can possess certain potential to influence the overall MNC HQ by showing initiative behaviour towards its local context, the internal market system within the MNC, or other subsidiaries and the HQ. Moreover, the introduction of the network -view and the contemporary, global operating environment have generally led to renewed discussions on how foreign subsidiaries are seen. As a realization of these forces, it is witnessed that subsidiaries are increasingly changing their roles on their own towards constantly evolving, informal roles and even against MNC HQ policy.

Consequently, the relevance of subsidiary development should be brought to a closer look in the evolution of MNC as a whole in the near future. From the theoretical side, it could represent the emergence of possible paradigm shift. Thus, the creation of a new sense of balance and linkage across branches of knowledge, types of questions and models, and scope of analysis might be one relevant condition in upcoming research on MNC subsidiaries.

However, for the mentioned reasons, it may not even be evident that the search for a stable organization theory or paradigm of the MNC is warranted. Instead, an evolving agenda of managerial issues of current interest should be addressed by the researchers from overlapping views in order to answer the rapid changes in the MNC subsidiaries' conditions.



#### 4. DISCUSSION AND CONCLUSIONS

Regarding the actual study process and its implications to the subject phenomenon, it must be stated that the research perspective taken in addressing the overlapping theoretical views and conceptual issues is vital. This is due to the fact that, especially, when going through the results of different studies on MNCs, the main emphasis in data gathering have been either in the corporate head office interviews or in other parent companies. Apparently, this challenges the overall reliability of those kinds of studies and hence should be approached with certain deliberation. The multitude of studies and models constructed and represented in this thesis, have been done with corporate eyes with some empirical evidence and subsidiary inclinations. Although an effort is made towards a critical assessment of the conclusions made from those studies. As a result, this review should provide certain ground for further empirical research in order to test whether the updated subsidiary environment tried to present within the thesis is actually portraying the reality taking place in MNC subsidiaries and to what extent.

Furthermore, within reason, a somewhat contradictory feedback from single study could not be interpreted as basis for changing paradigm. Instead, the most important practical implication of this study was to introduce theoretical indications of paradigm shift for the research community in order to them to consider what research questions to ask and what answers to perceive in further studies considering the attributes of modern subsidiary environment.

Yet, as a conclusion of this theoretical study, none of the three theoretical perspectives appear to fully explain the characteristics of contemporary subsidiaries regarding their roles, assigned or assumed, within the multinational corporation. It is though clear that the perspectives certainly provide explanations but however in various and usually theoretically overlapping instances.

Concurrently, the evolution of communication systems and information technologies with the tacit nature of knowledge, in turn, allows very different research designs to existing problems and change management approaches. As witnessed, the chosen theoretical perspective could only cater some answers for the modern subsidiary's stance within the MNC.

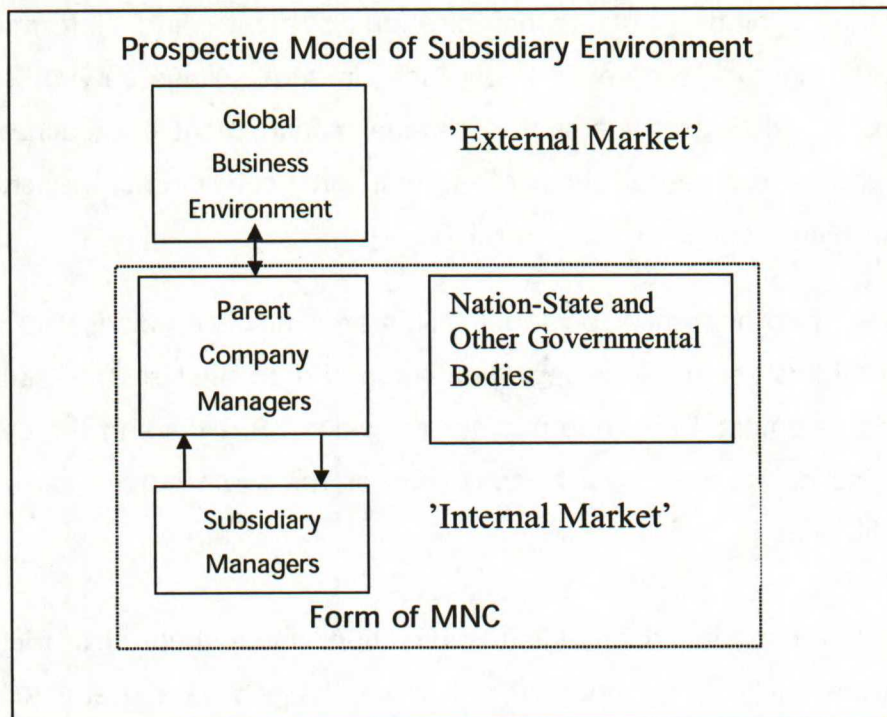
Instead, the often-used approach to model MNCs and their subsidiaries through the various paradigms seem more appropriate method to analyse the multiple levels of subsidiary context. Even though, from the views of MNCs and the overall MNC research, the paradigms could be also seen as the symptoms of unsettled organizational dilemmas.

Further empirical studies would provide the direction where theoretical focus is shifting more thoroughly. Even though the I-R grid is seen as a useful tool to evaluate subsidiary specific decisions, the study indicates that it doesn't fully take into consideration the manifold aspects in subsidiary research.

In addition to that, the evidence implies that the overall model of MNC presented in Figure 7 might be modified slightly as a result of the analysis made. Hence, the following model for one possible outlook for the MNC subsidiary's overall environment is displayed.

Obviously, the implications of this model to the I-R grid relate to the notion that even though the strategic tool inquires the level of local responsiveness and global integration, it doesn't regard the trade-offs made with the nation-state entities deeply enough. Hence, its value as a future strategic tool could be put into moderation to some degree.





As for subsidiary's role, it seems that MNC subsidiary isn't receiving anything for free in terms of resources, autonomy or with its interplay with the parent company. It could be stated that in prospect the subsidiary has to prove constantly itself for the HQ and for other stakeholders to maintain its existence. This, however, may lead to fierce battles between other subsidiaries and with HQ but still, however, seems to be facilitated by the possession of knowledge or other resources with innovative capacity out of HQ's reach. So consequently, it could be that the most severe competition is taking place in the MNC internal environment and not between traditional competitors in the external market place. The challenge could be in turning existing companies to subsidiaries or subsidiaries to spinoffs with changed roles and functions. These issues should be addressed in the upcoming studies.

The future struggle could be related to subsidiary competences and which one of the two, the MNC or the nation state can leverage on those assets. This apparently puts the subsidiary in a mixed position regarding its autonomy or the lack of it. Could it be said that the circle has gone its whole round from subsidiary autonomy to MNC control and back, concurrently with nation-state interests in

the middle mixing the whole research arena. This said the subsidiary have to gain recognition at different levels and with different stakeholders in order to survive in the 'game'.

### Managerial Implications

As for managerial usage, this research would primarily serve the needs of both the management practitioners in the subsidiary and especially the decision-making units, head offices. Also, the review may also function as an introductory or a reference material for a manager or an employee to get more familiar with the various models, concepts and topical issues of current MNC debate. The applicability of the various subsidiary related concepts apparently will not work explicitly but certain implicit reference value they can provide, leaving a great room for deliberation and personal judgement.

### Limitations of the Study and Suggestions for Further Research

The following limitations of the study should be highlighted. First, as this thesis did not include a specific empirical element of the research phenomenon, I cannot claim the validity of the study. However, the whole purpose was to increase our general understanding of theoretical issues concerning the modern MNC subsidiary role and the forces affecting it. Apparently, the weakness of the review type is that the scope and depth of the study will be somewhat constrained by the material already available but on the other hand, research reviews are usually open to subjective assessments and comments in order to inspire additional studies of related topics (Hakim, 1987:19-24).

As for being a theoretical research, this thesis obviously offers opportunities for further studies with empirical emphasis and thus is open to criticism as any other study in the field of business in an event of restricted empirical evidence. Future possible studies could be based on longitudinal data and datasets would examine



how subsidiaries respond to their complex environment and improve their strategic roles over time.

There could be also a set of unanswered questions for studies comparing strategic roles of subsidiaries hosted in the institutional environment, so that the effect of external environment with all the local contextual factors could be directly ascertained. Inevitably, a study of this length and scope can provide only a broad overview of the contributions to knowledge but instead the relevancy was to increase the understanding of current issues and update the phenomenon context for managerial questions. Addressed issues such as, the internal market system, government interventions and the consequences of the battles between the triad of headquarters, the subsidiary and the nation-state should without a doubt provide research arenas in the upcoming years.

As laid out in the text, it seems that the number of various facets to the same phenomenon is increasing as scholars are trying to simplify their finding according to their view of the matter. It could be argued that more cross-disciplinary studies might be fruitful in forthcoming endeavours on MNCs and their subsidiaries to a certain extent.

In addition, the increase in number of subsidiaries in transition economies would introduce a second boost of internationalisation and thus the expansion of MNCs in those areas more profoundly. As a conclusion and in front of the abundance of the presented approaches and responses, it is worthwhile to inquire: Are the dilemmas actually increasing as more design options become available for MNC executives?

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